[illegible] RECORD

[illegible] OF THE UNITED STATES

[illegible] TERM, 1962

No. 83

UNITED STATES, APPELLANT,

vs.

THE PHILADELPHIA NATIONAL BANK, ET AL.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA.

FILED MARCH 14, 1963
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SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1962

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118	Document entitled "Excerpt of Minutes and Resolutions Adopted by the Board of Directors of the Philadelphia National Bank, December 20, 1960"	6048	2718
119	Document entitled "Agreement of Consolidation between Girard Trust Corn Exchange Bank and the Philadelphia National Bank, Under the Charter of of The Philadelphia National Bank, Under the Title of 'Philadelphia Girard National Bank and Trust Company'"	6049	2718
123	Letter dated December 22nd, 1960, to Mr. Robert A. Bicks from Frederic A. Potts and Geoffrey S. Smith	6064	2728
125	Document entitled "Answer of the Philadelphia National Bank to Questions 9 and 10"	6070	2732
126	Letter dated July 16, 1953, from Arthur Littleton to L. A. Jennings, Esq.	6071	2733
126-A	Memorandum for the Files, dated July 9, 1953, signed by L. A. Jennings	6072	2734
127	Document entitled "Summary of Findings and Conclusions, Survey of Branch Banking in the Philadelphia Area, 1946 to 1957"	6074	2736
128	Document headed "Excerpt from the Minutes of a Regular Meeting of the Board of Directors of Girard Trust Corn Exchange Bank Held on November 15, 1960," dated December 13, 1960	6090	2756
129	Document headed "Excerpt of Minutes and Resolutions Adopted by the Board of Directors of Girard Trust Corn Exchange Bank," dated December 20, 1960	6091	2757

		Original	Print
Record from the United States District Court for the Eastern District of Pennsylvania—Continued			
Government's Exhibits—Continued			
132	Document dated November 22, 1960, being from E. L. Worstall, subject: "Mutual Accounts—Girard Corn & P. N. B." (excerpts)	6092	2758
133	Document being headed "Lines and Outstandings to Finance Companies, June 30, 1960"	6093	2759
134	Document headed "Dealers"	6100	2763
137	Document headed "Exhibit E, Classification of Regular Checking Accounts According to Size"—1. Personal 2. Business	6105	2766
137-A	Document dated July 28, 1960, to Mr. Frederic A. Potts, president, headed "Report of the Service Charges Committee"	6117	2778
138	Memorandum dated 12-2-60, entitled "Merger Memorandum, Re: Priority of Branch Sites"	6125	2790
141	Memorandum dated January 17, 1961, signed H. T. Enssler, to V. E. Furey and E. L. Worstall, re: Equipment Loans—Progress Report #1	6127	2793
142	Memorandum dated January 11, 1961, from Bill Whiteford to Mr. E. L. Worstall	6128	2794
144	Document dated January 16, 1961, the first line reading "Numbers Assigned"	6129	2796
146	Document headed "Answer of the Philadelphia National Bank to Questions 4 and 5 of Questions Propounded by Plaintiff"	6130	2796
147	Document comprising the questions propounded by plaintiff for answer by defendants	6132	2798
G-148	Transmittal letter from Morgan, Lewis & Bockius to George D. Reycraft, Justice Department, dated May 3, 1961 with memorandum entitled, "Modifications of Questions propounded by plaintiff on April 28, 1961, as agreed upon by counsel for the parties, May 2, 1961"	6142	2807
G-149	Transmittal letter from Morgan, Lewis & Bockius to George D. Reycraft, Justice Department, dated May 8, 1961 with memorandum entitled, "PNB—Girard Merger"	6146	2810

		Original	Print
Record from the United States District Court for the Eastern District of Pennsylvania—Continued			
GOVERNMENT'S EXHIBITS—Continued			
150	Two letters, dated December 9, 1953 and December 15, 1953, from Arthur Littleton to Mr. L. A. Jennings, Deputy Comptroller of the Currency	6150	2813
151	Letter dated July 22, 1955, addressed to the Honorable L. A. Jennings, Deputy Comptroller of the Currency, signed E. L. Worstall	6154	2817
152	Letter dated September 27, 1955, from E. L. Worstall to Honorable L. A. Jennings, Deputy Comptroller of the Currency	6156	2818
153	Letter dated July 18, 1956, from Frederic A. Potts to Honorable Ray M. Gidney, Comptroller of the Currency	6157	2819
158	Letter from Frederic A. Potts addressed to Honorable R. M. Gidney, Comptroller of the Currency, dated April 23, 1958	6159	2821
161	Transmittal letter dated March 1, 1961, from Board of Governors of the Federal Reserve System to W. Wallace Kirkpatrick, Esq., Acting Assistant General, with "Report by the Board of Governors of the Federal Reserve System to the Comptroller of the Currency, etc."	6160	2822
162	Letter dated January 19, 1961, from Robert A. Bicks, Assistant Attorney General, to Hon. Ray M. Gidney, Comptroller of the Currency, together with a one-sheet summary	6171	2834
163	Document entitled "Analysis of Competitive Factors," the Philadelphia National Bank, Philadelphia, Pennsylvania	6181	2845
164	Document entitled "Advance Extract from Annual Report to the Congress of the Comptroller of the Currency"	6187	2857
165	Inter-office memorandum dated July 3, 1956, from Third & Arch Streets to Mr. R. D. Conner, Main Office, with sheet indicating the various percentages by locations (excerpts)	6191	2862
170	Document headed "Analysis Survey of Philadelphia Banks Regular Checking as of September 20, 1960"	6194	2865
171	Document entitled "Analysis Survey of Philadelphia Banks Regular Checking as of March 31, 1961"	6197	2867

Record from the United States District Court for the Eastern District of Pennsylvania—Continued			
Government's Exhibits—Continued		Original	Print
172	Memorandum re "Proposed First Pennsylvania Company Branch Springfield, Delaware County Shopping Center," dated September 3, 1958, from Robert C. Allen	6200	2869
173	Letter of Girard Trust Corn Exchange Bank, from Geoffrey S. Smith, president, to the Honorable Robert L. Myers, Jr., Secretary of Banking of State of Pennsylvania	6202	2871
174	Memorandum dated September 11, 1958, from Robert C. Allen to Mr. S. S. Gardner, vice-president	6204	2874
175	Memorandum dated February 10, 1959, from S. S. Gardner to Messrs. Geoffrey S. Smith, George H. Brown, Jr., and O. H. Beadle	6205	2875
181	Document headed "Number of Commercial and Industrial Loans of Philadelphia National Bank and Girard in Philadelphia, Bucks, Montgomery, and Delaware Counties, Pennsylvania, as of October 5, 1955"	6206	2877
183 (Revised)	Document entitled "Changes in the Number of Banks with Head Offices in Philadelphia Shown by Size of Bank"	6207	2878
184	Document entitled "Commercial Banks in the Four County Area (December 1960)"	6208	2878
185	Document entitled "Changes in Commercial Banking in Philadelphia Four County Area as Measured by Changes in the Number of Independent Banks with Head Office in the County"	6209	2879
187	Document headed "Commercial Banks with Head Offices in the Four-County Area and Location of Their Offices within the Four Counties (December 1960)"	6218	2886
188	Transmittal letter of the Philadelphia National Bank from Frederic A. Potts to The Honorable Ray M. Gidney, Comptroller of the Currency, dated January 26, 1961 with "Comments regarding competitive factors in proposed merger between The Philadelphia National Bank and Girard Trust Corn Exchange Bank"	6222	2889

		Original	Print
Record from the United States District Court for the Eastern District of Pennsylvania—Continued			
Government's Exhibits—Continued			
191	Document headed "Loan Limits of Commercial Banks with Head Offices in Philadelphia, Montgomery, Delaware, and Bucks Counties, Pennsylvania, as of December 31, 1960"	6229	2897
192	Inter-office memorandum dated March 8, 1960, from S. S. Gardner to Mr. O. H. Beadle	6232	2898
194	Two-page memorandum, The Philadelphia National Bank, Robert B. Lowry to Henry Satterfield, dated February 20, 1961	6233	2900
195	Document headed "Proportion of Demand Deposit Accounts Under $10,000 of Philadelphia National Bank and Girard Trust Corn Exchange Bank Originating in Philadelphia, Bucks, Delaware and Montgomery Counties as of April and May 1961"	6235	2902
196	Document entitled "Concentration of Deposits Loans and Capital Funds of Commercial Banks in Philadelphia, Bucks, Delaware and Montgomery Counties as Shown by Relative Size of Six Largest Banks and Effect of Proposed Consolidation of Philadelphia National Bank and Girard Trust Corn Exchange Bank on Such Concentration as of October 3, 1960"	6236	2903
197	Document headed "Comparison of Growth by Acquisitions with Other Growth of Philadelphia National Bank and Girard Trust Company, December 31, 1949 to December 31, 1959"	6237	2904
198	Document entitled "Percentage Analysis of Growth of Philadelphia National Bank and Girard Trust Company, December 31, 1949 to December 31, 1959"	6238	2905
199	Document entitled "Answer of Girard Trust Corn Exchange Bank to Questions 4 and 5 Submitted by Plaintiff"	6239	2906
200	Document headed "Question 6"	6240	2906

Record from the United States District Court for the Eastern District of Pennsylvania—Continued			
Government's Exhibits—Continued		Original	Print
201	Document, the first page headed "Deposit Balances with Girard of 26 Corporations (All Demand Deposits, and Listed to the Nearest $1000)" and the second page headed "Answer of Girard Trust Corn Exchange Bank to Question 10 Submitted by Plaintiff"	6254	2918
206	Document, consisting of memorandum dated July 7, 1960, from S. S. Gardner to G. H. Brown, Jr.; memorandum from S. S. Gardner and R. C. Allen, dated July 7, 1960, re: Broad Street Trust Application—Drexel Line Shopping Center; and a memorandum dated June 2, 1960, from S. S. Gardner to G. H. Brown, Jr. and O. H. Beadle	6256	2918
207	Letter dated July 26, 1960, from Hubert J. Horan, Jr. to George H. Brown, Jr.	6261	2924
208	Inter-office memorandum dated July 28, 1960, from S. S. Gardner to Branch Administration Files re: Competitive Banks' Locations—Not Protested	6262	2925
214	Memorandum dated November 22, 1960, from S. S. Gardner to Competitive Bank Sites	6263	2926
215	Memorandum dated December 19, 1960, from S. S. Gardner, to Mr. G. H. Brown, Jr. and Mr. O. H. Beadle, together with memorandum dated December 19, 1960, from S. S. Gardner to Branch Administration Files, re: Competitive Bank Sites—Not Protested	6265	2927
216	Inter-office memorandum dated January 5, 1961, from G. H. Brown, Jr. to Mr. S. S. Gardner, re: Stenton Avenue	6266	2929
217	Memorandum dated January 10, 1961, from S. S. Gardner to Mr. George H. Brown, Jr., re: Proposed Broad Street Trust Branch, Stenton Avenue near Washington Lane	6267	2930
218	Memorandum dated January 12, 1961, from S. S. Gardner to Competitive Bank Sites — Not Protested — File, Bank of Old York Road Application for a Branch at the Intersection of Routes 309 and 202—Montgomeryville, Montgomery County	6268	2931

		Original	Print
Record from the United States District Court for the Eastern District of Pennsylvania Continued			
Government's Exhibits Continued			
220	Memorandum dated December 15, 1959, from Robert C. Allen to Mr. S. S. Gardner, re: Beneficial Savings at Lawrence Park	6269	2932
221	Memorandum dated December 9, 1959, from S. S. Gardner to Mr. G. H. Brown, Jr., President, re: Beneficial Mutual Savings Bank Application at Lawrence Park, & memorandum dated November 18, 1959, from Robert C. Allen, re: Lawrence Park Lease (excerpts)	6271	2934
222	Inter-office memorandum dated March 2, 1960, from S. S. Gardner to Mr. G. H. Brown, Jr. and Mr. O. H. Beadle, re: Beneficial Mutual Savings Fund Branch in Lawrence Park	6273	2936
224	Memorandum dated April 7, 1959, from S. S. Gardner to Mr. Geoffrey S. Smith, President, re: Saving Fund Society of Germantown Proposed Wynnewood Location	6274	2937
225	Inter-office memorandum dated April 8, 1959, from S. S. Gardner to Mr. G. H. Brown, Jr. and Mr. O. H. Beadle, re: Saving Fund Society of Germantown Proposed Wynnewood Location, (excerpts)	6276	2939
226	Memorandum dated January 15, 1960, from S. S. Gardner to Competitive Banks' Branch Locations Not Protested File, re: Savings Fund Society of Germantown Wynnewood Shopping Center Branch	6277	2940
227	Memorandum dated December 4, 1956, from R. C. Allen to Competitive Banks' Site—Not Protested, re: Saving & Loan—New Office	6278	2941
231	Memo of July 11, 1956, to R. Strunce from Don Breth	6279	2942
232	Memo dated April 29, 1957, from F. G. Erb to E. L. Worstall with memo attached from E. L. Worstall to E. B. Ridgway, dated May 7, 1957	6281	2943
233	Memo dated April 16, 1958, from R. Lowry to W. E. Brown, and memo dated May 19, 1958, from R. Lowry to W. E. Brown	6283	2944

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Record from the United States District Court for the Eastern District of Pennsylvania—Continued			
Government's Exhibits—Continued			
234	Document headed "Home Modernization—Girard Corn Plan," dated 7/22/58	6285	2946
235	Memo dated March 31, 1959, from R. R. Strunce to Mr. E. B. Ridgway, "Home Modernization Plan—Reserve Bonus"	6286	2946
236	Memo dated April 1, 1959, from R. R. Strunce to E. B. Ridgway re: "Consolidation Plan for Home Modernization Dealers"	6287	2948
237	Memo dated April 7, 1959, from R. R. Strunce to E. B. Ridgway, subject: "Bonus Plan"	6288	2949
238	Memo dated April 22, 1959, from R. R. Strunce to E. B. Ridgway, subject: "Special Home Modernization Plan," together with two-page outline of "Special Home Modernization Plan"	6289	2950
239	Two-page memo dated April 26, 1960, from R. R. Strunce to H. D. Satterfield, subject: "Dealer Bonus Plan"	6292	2953
240	Memo dated May 18, 1959 from H. D. Satterfield to E. B. Ridgway with a memo dated May 12, 1959, from D. C. Buzby to H. D. Satterfield and memo dated May 4, 1959, from D. C. Buzby to H. D. Satterfield and memo dated January 2, 1959 from D. C. Buzby to R. Strunce, re: Insurance Auto Agents Plan	6294	2955
241	Document headed "Floor Plan Rate," bearing dates 8/3/59 and 8/6/59	6298	2958
242	Memo dated March 25, 1960, from C. Gillam to H. Satterfield, subject: "Auto Agent Plan"	6299	2960
243	Memo dated December 9, 1960, from H. D. Satterfield to E. B. Ridgway	6300	2962
244	Memo dated April 29, 1960, from R. R. Strunce to E. B. Ridgway	6303	2965
246	Document headed "Lines of Credit Held by Pennsylvania Power and Light Company from 1956 to Date, the Amount of Each Line of Credit and the Bank With Which Each Line of Credit Was Carried"	6304	2965
248	Memorandum dated May 26, 1955, from Harry Kilpatrick to Mr. Geoffrey S. Smith	6310	2970

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Record from the United States District Court for the Eastern District of Pennsylvania—Continued			
GOVERNMENT'S EXHIBITS—Continued			
249	Letter dated November 28, 1955, from Geoffrey S. Smith to Walter Reller, President, Ambler National Bank	6311	2971
250	Memorandum signed by Geoffrey S. Smith, dated January 4, 1957, re: Ambler National Bank	6315	2975
251	Document headed "The Atlantic Refining Company (Only) Notes Payable to Banks—1956-1960", etc.	6316	2977
252	Document headed "Rohm & Haas Company Lines of Credit Held from January 1, 1956, to May 31, 1961"	6325	2984
253	Document headed "Rohm & Haas Company Total Loans Outstanding January 1, 1956, to July 24, 1958"	6326	2985
254	Document headed "Rohm & Haas Company Bank Account Balances—Beginning of Business September 1, 1956, 1957, 1958, 1959, 1960"	6328	2987
255	Document headed "Lines of Bank Credit—Bankers' Securities Corporation (Merchandising Division) in Response to Question 1"	6330	2989
DEFENDANTS' EXHIBITS:			
1e	Document entitled "Monthly Review of Credit and Business Conditions, Federal Reserve Bank of New York," Volume 39, May, 1957, No. 5, article, "The Location of Business Customers of Second District Banks"	6334	2992
3	Document headed "Financing Small Business, Table 10—Business Loans of Member Banks, October 1955 and October 1957, By Size of Bank and Relative Size of Borrower"	6340	3007
10	Document entitled "Distances From All Philadelphia National Offices To The Nearest Girard Trust Corn Exchange Office"	6341	3008
11	Document entitled "Distances From All Girard Trust Corn Exchange Offices To The Nearest Philadelphia National Office"	6342	3010

Record from the United States District Court for the Eastern District of Pennsylvania—Continued		Original	Print
DEFENDANTS' EXHIBITS—Continued			
12	Document entitled "The Philadelphia National Bank list of each of its offices, giving each office of a competing institution located within a radius of one mile from each Philadelphia National city office and within a radius of two miles for each Philadelphia National suburban office	6343	3012
12-A	Paper headed "Addendum to Defendants' Exhibit D-12"	6357	3026
13	Document entitled "Girard Trust Corn Exchange Bank list of each of its offices, giving each office of a competing institution located within a radius of one mile for each Girard city office and within a radius of two miles for each Girard suburban office"	6358	3026
13-A	Paper headed "Addendum to Defendants' Exhibit D-13"	6379	3047
14	Letter dated February 28, 1961, from H. S. Haggard, Deputy Comptroller of the Currency, to Mr. Frederic A. Potts, president of the Philadelphia National Bank	6380	3049
15	Document headed "Commercial Banks With Head Office Located in Ten-County Area by Counties on December 31, 1960"	6382	3052
16	Document entitled "Alternative Sources of Credit from Commercial Banks Located in Delaware Valley"	6387	3059
17	Document headed "Number of PNB Loans to Customers Located Within the 4-County Area, Distributed by Size and Type of Loan"	6388	3059
18	Booklet entitled "Comparison of Relative Growth of Deposits of Banks in the Delaware Valley with Deposit Growth of the Philadelphia National Bank and Girard Trust Corn Exchange Bank (1951-1960)"	6389	3060

Record from the United States District Court for the Eastern District of Pennsylvania—Continued

DEFENDANTS' EXHIBITS—Continued

	Volume IV	Original	Print
19	Booklet entitled "Loans, Deposits and Loan-Deposit Ratios, Before and After Merger, for Offices Acquired by The Philadelphia National Bank (1950-1960)".	6413	3084
20	Chart entitled "Size of Banks Relative to Population, 1959-1960"	6430	3097
21	Series of sheets showing statistical information with regard to banks in reserve cities	6431	3099
22	Document headed "Assets of Largest Commercial Bank as Per Cent of Total Assets of All Commercial Banks in Reserve Cities and Central Reserve Cities"	6487	3152
23	Document entitled "Assets of Five Largest Commercial Banks as Per Cent of Total Assets of Commercial Banks in Reserve Cities and Central Reserve Cities"	6488	3153
24	Document headed "Lending Limit Date, 12/31/60"	6489	3154
25	Document entitled "A Comparison of General Economic Growth With Bank Growth in the Delaware Valley (1940-1959) (except as noted)" with chart	6491	3157
26 (Revised)	Document entitled "Excess of Average Deposits Over Average Loans of All PNB Customers With Credit Limits of $8,000M or More"	6496	3163
27	Document headed "Relative Growth of Assets of Selected Financial Institutions in the United States 1945-1959"	6497	3164
29	Document headed "Ratio of Loans to Assets for Insured Commercial Banks in the U. S., June 10, 1959"	6498	3164
30	Document entitled, "Amount of Time and Savings Deposits—Daily Average for June 1960 Distributed According to Location of Customer", etc.	6499	3165
32	Document headed "Time Deposits" with attached Schedules A, B, and C	6502	3168
34	Document headed "Five Year Rate Survey of Savings Fund Interest Rates"	6506	3172
36	Document entitled "Loan Authorities of Banks Merged with Girard Trust Corn Exchange Bank"	6507	3173

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Record from the United States District Court for the Eastern District of Pennsylvania—Continued			
DEFENDANTS' EXHIBITS—Continued			
38	Document headed "Banking and Trust Services of Girard Trust Corn Exchange Bank"	6510	3176
39	Document entitled "List of Banks with Main Offices in New York City (Five Boroughs) with Lending Limits in Excess of $1,000,000, December 31, 1960"	6514	3179
40	Document headed "Excess of Ayerage Deposits Over Average Loans of Girard Trust Customers With 27 Largest Lines of Credit"	6516	3181
41	Document entitled "Function, Market Area and Type of Competition of the Philadelphia National Bank and Girard Trust Corn Exchange Bank"	6517	3182
43	Document entitled "Analysis of Defendants' Partnership and Corporation Customers Whose Choices Include Banks Outside Delaware Valley"	6522	3185
44	Letter dated January 20, 1961, Broad Street Trust Company, from Hubert J. Horan, Jr., to Honorable Ray M. Gidney	6523	3186
45	Memorandum of John S. Carter, dated April 10, 1961	6525	3187
46	Document headed "Recapitulation,"	6533	3193
47	Document, entitled "Assets of the Largest Commercial Bank as Per Cent of Total Assets of All Commercial Banks in Cities with Population Over 100,000"	6551	3208
48	Book entitled "Annual Report of the Federal Deposit Insurance Corporation for the year ended December 31, 1960", Part II—Changes in the number of banking office, 1859-1959, and in the relative position of banks, 1921-1958	6553	3209
52	Graph entitled "Concentration in Large Metropolitan Areas With Limited Area Branch Banking"	6590	3261
53	Document headed "Table 38. Relative Importance of the Largest Commercial Banks in the United States, December 31, 1960"	6591	3263
54	Document headed "Table 39. Commercial Banking Offices and Percentage of Deposits in the Largest Banks in Each State, December 31, 1960"	6592	3264

		Original	Print
Record from the United States District Court for the Eastern District of Pennsylvania—Continued			
Defendants' Exhibits—Continued			
55	Document headed "Table 40. Commercial Banking Offices and Percentage of Deposits in the Largest Banks in the Principal County (or Counties) in 65 Metropolitan Areas, June 15, 1960"	6593	3266
56	Document headed "Girard Trust Corn Exchange Bank Branch Area Deposit Survey"	6594	3269
57	Document entitled "Number of Girard Loans to Customers Located Within the Four-County Area, Distributed by Size and Type of Loan"	6595	3270
60	Document headed "Demand Deposits"	6596	3271
61	Document headed "Time Deposits"	6602	3281
62	Document headed "All Time and Demand Deposits of Individuals, Partnerships and Corporations, Combined Share of Philadelphia National and Girard"	6605	3284
63	Document headed "Commercial and Industrial Loans"	6606	3285
64	Document headed "Real Estate Loans"	6609	3286
65	Document headed "Real Estate Loans, Comparison of Defendants With Certain Other Competing Institutions"	6610	3287
66	Document headed "Loans to Individuals—1—Geographical Distribution of Girard Trust Corn Exchange Bank's Loans to Individuals", etc.	6618	3292
67	Document entitled "Other Loans"	6626	3299
68	Document entitled "Lines of Credit"	6629	3301
69	Document entitled "Personal Trusts"	6630	3302
70	Document headed "Volume of Check Clearances"	6641	3311
Plaintiff's proposed findings of fact and conclusions of law		6642	3313
See separate index, page 3315			
Defendants' requested findings of fact and conclusions of law		6814	3485
Transcript of argument sur pleadings and proof, October 27, 1961		6875	3519
Appearances		6875	3519
Opening argument by Mr. Reveraft		6877	3520
Argument by Mr. Littleton		6944	3558
Argument by Mr. Price		7014	3597
Closing argument by Mr. Reveraft		7056	3621
Opinion, Clary, Ch. J.		7070	3629
Judgment		7132	3669

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Record from the United States District Court for the Eastern District of Pennsylvania—Continued		
Stipulation of parties as to timing of appeal and consummation of merger	7133	3670
Notice of appeal to the Supreme Court of the United States	7134	3671
Order transmitting record to the Supreme Court of the States	7137	3672
Order noting probable jurisdiction	7138	3673

[fol. 1] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

UNITED STATES OF AMERICA, Plaintiff,

v.

THE PHILADELPHIA NATIONAL BANK, AND GIRARD TRUST CORN EXCHANGE BANK, Defendants.

COMPLAINT—Filed February 25, 1961

The United States of America, plaintiff, by its attorneys, acting under the direction of the Attorney General of the United States, brings this civil action to obtain equitable relief against the above-named defendants and complains and alleges as follows:

I

Jurisdiction and Venue

1. This complaint is filed and this action is instituted against the above-named defendants under Section 4 of the Act of Congress of July 2, 1890, c. 647, 26 Stat. 209, as amended; entitled "An Act to protect trade and commerce against unlawful restraints and monopolies," commonly known as the Sherman Act, and under Section 15 of the Act of Congress of October 15, 1914, c. 323, 38 Stat. 736, as amended, entitled "An Act to supplement existing laws against unlawful restraints and monopolies and for other purposes," commonly known as the Clayton Act, in order to prevent and restrain continued violations by the defendants, as hereinafter alleged, of Section 1 of the Sherman Act and of Section 7 of the Clayton Act, 38 Stat. 731, as amended by the Act of Congress of December 29, 1950, c. 1184, 64 Stat. 1125.

[fol. 2] 2. Each of the defendants has its principal place of business, transacts business, and is found within the Eastern District of Pennsylvania.

II

The Defendants

3. The Philadelphia National Bank, hereinafter referred to as "Philadelphia National," is made a defendant herein. It is a banking association organized under the laws of the United States, having its principal place of business at Philadelphia, Pennsylvania.

4. Girard Trust Corn Exchange Bank, hereinafter referred to as "Girard Trust" is made a defendant herein. It is a banking association organized under the laws of the State of Pennsylvania, having its principal place of business at Philadelphia, Pennsylvania.

III

Trade and Commerce

5. Commercial banks fill an essential and unique role in the nation's economy. Most money payments are made through the device of demand deposits, a function unique to commercial banks. Through the making of loans to individual and business borrowers commercial banks supply a significant part of the credit requirements of our economy. Commercial banks also accept time deposits from various types of depositors and provide a wide variety of other financial services, including personal and corporate trust accounts, the collection of drafts, bills, and other commercial instruments; the acceptance of bills of exchange; the issuance of letters of credit; the sale of cashiers' checks, and drafts on correspondent banks; the purchase or sale of securities for customers; the sale of foreign exchange and the renting of safety deposit boxes. This combination of services is unduplicated by other financial institutions.

[fol. 3] 6. Commercial banks, because of the importance of bank credit to business borrowers and their close relationships with many such borrowers, and because of their holdings of stock in trust accounts have an important influence on competition in all branches of industry and commerce served by the banking system.

7. Commercial banking in the City of Philadelphia and in the surrounding metropolitan area is heavily, concen-

trated in a few banks. Within the City itself five banks, as of June 30, 1960, accounted for approximately 80% of total assets, deposits and loans for all commercial banks. Within the somewhat broader "IPC service area" from which 75% of Philadelphia National's IPC deposits (from individuals, partnerships and corporations) originate, the same five banks accounted for approximately 51% of such IPC deposits in all commercial banks. Concentration in some important commercial banking functions is even greater. For example, the five banks described above account for approximately 85% of the total commercial and industrial loans by all Philadelphia banks.

8. Philadelphia National conducts a general commercial banking business through 28 offices, 11 of which are located in the City of Philadelphia and 17 in the surrounding metropolitan area. As of June 30, 1960, Philadelphia National had total assets of $1,086,147,170 and in the Philadelphia area was second in size only to the First Pennsylvania Banking and Trust Company which had assets of $1,182,660,407. As of the same date, Philadelphia National had total deposits of $946,306,784 and total loans of $523,612,316. Approximately 57% of Philadelphia National's loans are in the commercial and industrial category.

9. Girard Trust is the third largest commercial bank in the Philadelphia area. It conducts a general commercial banking business through 39 offices, 21 of which are located in the City of Philadelphia and 18 in the surrounding metropoli- [fol. 4] tan area. As of June 30, 1960, it had assets of $757,572,488, deposits of $658,176,864 and loans of $408,627,181. Approximately 49% of Girard Trust's total loans were in the commercial and industrial category.

10. Both Philadelphia National and Girard Trust have made numerous acquisitions which have contributed to the present degree of commercial banking concentration in the Philadelphia area. Philadelphia National has acquired nine smaller banks in this area by way of merger or consolidation since 1950. Girard Trust was formed by a 1951 merger and since that time has acquired five smaller Philadelphia area banks through mergers or consolidations.

11. Philadelphia National and Girard Trust compete with each other, and with other banks in the Philadelphia area,

in the performing of commercial banking functions, as described in paragraph 5 above.

12. As of June 30, 1960, Philadelphia National accounted for approximately 22% and Girard Trust for approximately 15% of total deposits in Philadelphia commercial banks. Within the "IPC service area" for Philadelphia National, as described in paragraph 7 above, the defendants' shares of total IPC deposits in commercial banks were approximately 11% and 10%, respectively, while in Girard Trust's "IPC service area" each bank accounted for approximately 13% of such IPC deposits.

13. As a result of the proposed merger hereinafter alleged, Philadelphia National would become the largest commercial bank in the Philadelphia area in terms of banking offices, assets, deposits and loans, and would be approximately 50% larger than its largest competitor. At the same time, the proposed merger would increase banking concentration to the point where the two largest commercial banks would account for approximately 62% of the total assets, deposits and loans of all Philadelphia commercial banks and approximately 36% and 45% of total commercial bank IPC deposits in the respective "IPC service areas" of Philadelphia National and Girard Trust.

[fol. 5] 14. Customers of Philadelphia National and Girard Trust have regularly utilized interstate communications, including the mails, telephone and telegraph, to effect deposits, apply for and obtain loans and obtain other services made available by these banks. The banks have regularly utilized interstate communications, including the mails, telephone and telegraph, to conduct banking business with customers, and with other banks located in states other than the state in which they are located. The banks have received a substantial amount of deposits from states other than the state in which they are located, and have made a substantial amount of loans to customers in such other states. Philadelphia National and Girard Trust are engaged in interstate commerce.

IV

Offenses Charged

15. Beginning sometime prior to November 15, 1960, and continuing thereafter up to and including the date of the filing of this complaint, defendants Philadelphia National and Girard Trust have been engaged in an unlawful combination in unreasonable restraint of the above described interstate trade and commerce in violation of Section 1 of the Sherman Act.

16. The unlawful combination has consisted of a continuing agreement, understanding and concert of action between the defendants Philadelphia National and Girard Trust, the substantial terms of which have been and are that the defendants will carry out a plan of merger and consolidation which will eliminate all competition between them. To carry out the combination in unreasonable restraint of the above-described interstate trade and commerce, the defendants have entered into a contract which was approved by the boards of directors of Philadelphia National and Girard Trust on or about December 20, 1960 which, if carried out, will result in a merger and consolidation of the two defendants and eliminate all competition between them in violataion of Section 1 of the Sherman Act.

[fol. 6] 17. The effect of the consolidation of Philadelphia National and Girard Trust, pursuant to the agreement described in paragraph 16 above, may be substantially to lessen competition or to tend to create a monopoly in violation of Section 7 of the Clayton Act.

18. The offenses alleged in this complaint are continuing and will continue unless the relief hereinafter prayed for is granted.

V

Effects

19. The aforesaid offenses charged in this complaint, if continued and carried out, will have, among others, the following effects:

(a) actual and potential competition between the defendants will be permanently eliminated;

(b) existing and potential competition generally in

commercial banking in the Philadelphia area will be substantially and unreasonably lessened;

(c) concentration in commercial banking in the Philadelphia area will be substantially and unreasonably increased;

(d) existing and potential competition in the commerce and industry served by commercial banks in the Philadelphia area will be substantially and unreasonably lessened.

Prayer

WHEREFORE, plaintiff prays:

1. That the aforesaid agreement between defendants Philadelphia National and Girard Trust be adjudged and decreed to be unlawful, in violation of Section 1 of the Sherman Act and Section 7 of the Clayton Act.

2. That defendants Philadelphia National and Girard Trust and all persons acting on their behalf be enjoined from carrying out the agreement of consolidation or any similar plan or agreement the effect of which would be to merge or consolidate said defendants.

[fols. 7-11] 3. That a preliminary injunction issue against the defendants Philadelphia National and Girard Trust, preventing and restraining them from taking any action to consummate the aforesaid agreement, or any similar agreement, understanding or plan to merge or consolidate Girard Trust with Philadelphia National pending adjudication of the merits of this complaint.

4. That plaintiff have such other and further relief as the Court may deem just and proper.

5. That plaintiff recover the costs of this suit.

/s/ Robert F. Kennedy Attorney General. /s/ W. Wallace Kirkpatrick, Acting Assistant Attorney General. /s/ George D. Reycraft. /s/ Larry L. Williams, Attorneys, Department of Justice. /s/ Walter E. Alessandroni, United States Attorney. /s/ Robert A. Hammond, Attorney, Department of Justice.

[fol. 12] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

ANSWER OF DEFENDANT GIRARD TRUST CORN EXCHANGE BANK TO PLAINTIFF'S COMPLAINT—Filed March 10, 1961

Defendant Girard Trust Corn Exchange Bank ("Girard Trust") makes the following answer to plaintiff's complaint:

First Defense

1. Girard Trust is advised that the allegations of this paragraph are conclusions of law which require no answer. To the extent that any answer is required, Girard Trust denies that sections 1 and 4 of the Sherman Act and Sections 7 and 15 of the Clayton Act are applicable to the agreement and proposed merger referred to in the complaint, which are subject to the National Bank Act, as amended (more particularly 12 U.S.C.A. § 215), and section 18 of the Federal Deposit Insurance Act, as amended (12 U.S.C.A. § 1828).

2, 3 & 4. Admitted.

5. Girard Trust is advised that the allegations of the first and third sentences of paragraph 5 of the complaint are conclusions that require no answer. Girard Trust ad- [fol. 13] mits the allegations of the fourth sentence of paragraph 5 of the complaint and admits that commercial banks fill an essential role in the nation's economy. Girard Trust denies that the services referred to in paragraph 5 of the complaint are unique to commercial banks and denies the remaining allegations of paragraph 5 of the complaint which, among other things, purport, but fail, to give an accurate summary of the complex nature of commercial banking and its part in the economy in the nation as regulated, controlled, and supervised under statutes of the United States.

6. Girard Trust is advised that paragraph 6 of the complaint alleges a conclusion which requires no answer. To

the extent that any answer may be required, Girard Trust denies that it has exercised or intends to exercise or will exercise any influence whatever on competition in any branch of industry or commerce which it serves because of any importance which credit may have to its business borrowers, or any relationship with any such borrower, or because of its holding of stock in trust accounts. Girard Trust is without knowledge or information sufficient to form a belief about the truth of the remaining allegations of paragraph 6 of the complaint.

7. Girard Trust denies that commercial banking in Philadelphia or the surrounding area or in any area relevant to this proceeding is heavily concentrated in a few banks, and that concentration in any important commercial banking function is great, undue, or disproportionate to the circumstances of the areas and persons served by the defendants. Girard Trust is without knowledge or informa- [fol. 14] tion sufficient to form a belief about the truth of the remaining allegations of paragraph 7 of the complaint.

8. Girard Trust admits that Philadelphia National conducts a general commercial banking business through 27 (not 28) offices, 10 (not 11) of which are located in Philadelphia and 17 of which are outside Philadelphia, and that, as of June 30, 1960, it had total assets of $1,086,147,170 (including reciprocal bank balances), total deposits of $946,306,784 (including reciprocal bank balances), and total loans of $523,612,316, of which approximately 57 percent in dollar amount were in the commercial and industrial category. Girard Trust is without knowledge or information sufficient to form a belief about the truth of the remaining allegations of paragraph 8 of the complaint.

9. Girard Trust admits that it conducts a general commercial banking business through 38 (not 39) offices, 20 (not 21) of which are located in Philadelphia and 18 of which are outside Philadelphia, and, as of June 30, 1960, that it had net assets of $740,920,000, net deposits of $650,790,000, and net loans of $399,362,000, of which approximately 49 percent in dollar amount were in the commercial and industrial category. Girard Trust denies the remaining allegations of paragraph 9 of the complaint.

10. Girard Trust admits that Philadelphia National has

merged or consolidated with eight banks, only one of which was located in Philadelphia, and acquired the assets of one Philadelphia bank since 1950, and that Girard Trust was [fol. 15] formed by a merger in 1951 and since that time has merged with five other banks, only two of which were located in Philadelphia. Girard Trust denies the remaining allegations of paragraph 10 of the complaint.

11. Girard Trust admits that Philadelphia National and Girard Trust compete not only with each other but with other commercial banks, saving fund societies, savings and loan associations, credit unions, pension funds, profit-sharing trusts, consumer discount companies, general finance companies, insurance companies, sales finance companies, small loan companies, factors, direct lending agencies of the federal government (e.g., the Small Business Administration and Veterans Administration), and other institutions, agencies and businesses located not only in Philadelphia but in the local, regional, national, and international areas served by the defendants, and elsewhere, in the performance of each of the functions described in paragraph 5 of the complaint. Girard Trust denies that, fairly considering the nature of banking and banking competition, the competition between Philadelphia National and Girard Trust is such that the consummation of the proposed merger would significantly, substantially, or unreasonably lessen competition with respect to the performance of the functions referred to in paragraph 5 of the complaint and, further, denies the remaining allegations of paragraph 11 of the complaint.

12. Girard Trust is without knowledge or information sufficient to form a belief about the truth of the allegations [fol. 16] of paragraph 12 of the complaint.

13. Girard Trust admits that there is an agreement of merger between Philadelphia National and Girard Trust and that, if the merger is consummated, the resulting bank would be the largest commercial bank located in Philadelphia in terms of number of banking offices, assets, deposits, and loans. Girard Trust denies that the resulting bank would be larger in any respect than its largest competitor because its competitors with respect to each service it would offer would include the banks and other institutions, agencies, and businesses referred to in paragraph 11 above

which are located not only in Philadelphia but in New York, Pittsburgh, Boston, Washington, Baltimore, and other places as well. Girard Trust is without knowledge or information sufficient to form a belief about the remaining allegations of paragraph 13 of the complaint.

14. Girard Trust admits the allegations of the first, second, and third sentences of paragraph 14 of the complaint. Girard Trust is advised that the last sentence of the paragraph is a conclusion of law which requires no answer. To the extent that any answer to the last sentence may be required, Girard Trust denies that Philadelphia National and Girard Trust are engaged in interstate commerce for the purposes of the statutes cited in paragraph 1 of the complaint as alleged by the plaintiff to apply to the agreement and proposed merger referred to in the complaint.

[fol. 17] 15. Girard Trust denies the allegations of paragraph 15 of the complaint.

16. Girard Trust admits that, on December 20, 1960, it entered into an agreement of merger with Philadelphia National. Girard Trust denies that the agreement was unlawful and avers that not only was it lawful but it was expressly determined by the Comptroller of the Currency to be in the public interest. Girard Trust denies the remaining allegations of paragraph 16 of the complaint.

17, 18, & 19. Girard Trust denies the allegations of paragraphs 17, 18, and 19 of the complaint.

Second Defense

20. The complaint fails to state a claim upon which relief can be granted.

Third Defense

21. The Court lacks jurisdiction over the subject matter of the action.

Fourth Defense

22. The Sherman Act and the Clayton Act are not applicable to the transactions alleged in the complaint.

[fol. 18] Fifth Defense

23. On November 15, 1960, the Boards of Directors of Philadelphia National and Girard Trust approved a pro-

gram for the merger of those banks and authorized the preparation of an agreement of merger for submission to the Boards of Directors of the two banks and their shareholders.

24. On the same day, pursuant to the statutory requirements of the National Bank Act, as amended (12 U.S.C.A. § 215), and regulations promulgated thereunder, and section 18(c) of the Federal Deposit Insurance Act, as amended (12 U.S.C.A. § 1828(c)), an application was made to the Comptroller of the Currency to obtain his approval and consent to the proposed merger. Thereafter, more information in support of the application was submitted to the Comptroller by Philadelphia National and Girard Trust and, in addition, the Comptroller conducted his own investigation to determine the propriety, desirability, and legality of the proposed merger and the terms thereof.

25. The information submitted by Philadelphia National and Girard Trust to the Comptroller was also supplied to the Assistant Attorney General in charge of the Antitrust Division of the Department of Justice and additional information was supplied to him pursuant to his requests.

26. The Comptroller requested and received advisory reports concerning the proposed merger from the Federal Deposit Insurance Corporation and the Federal Reserve [fol. 19] Board as well as a report from the Attorney General on the competitive factor involved. These reports and the other information available to the Comptroller were carefully considered by him pursuant to the statutory requirement that he determine whether the proposed merger is in the public interest after considering seven factors: "the financial history and condition of each of the banks involved, the adequacy of its capital stock, its future earnings prospects, the general character of its management, the convenience and needs of the community to be served, and whether or not its corporate powers are consistent with the purposes of [the Federal Deposit Insurance Act]" and "the effect of the transaction on competition (including any tendency toward monopoly)" (12 U.S.C.A. § 1828(c)). On February 24, 1961, the Comptroller, pursuant to the applicable statutes, determined the proposed merger to be in the public interest and gave his approval of the proposed merger. On February 28, 1961, he sent

the defendants written notice of his approval of and consent to the merger.

27. The determination by the Comptroller that the proposed merger of Philadelphia National and Girard Trust is in the public interest, after consideration of all the banking factors and the competitive factor relating to the proposed merger, is the exclusive and final determination of the propriety, desirability, and legality of the proposed merger under all applicable federal laws.

[fols. 20-21] Sixth Defense

28. This Court should not exercise its equitable power and grant the relief requested by the plaintiff because the Department of Justice for several years has sought to obtain from Congress specific authority which would permit it to institute antitrust proceedings to enjoin bank mergers and Congress has failed to enact legislation which would have granted such authority.

Seventh Defense

29. The agreement of merger and the merger which it contemplates do not constitute and unreasonable restraint of trade within the meaning of section 1 of the Sherman Act nor would the effect thereof be to substantially lessen competition or tend to create a monopoly within the meaning of section 7 of the Clayton Act and, on the contrary, such merger will promote, enhance, and create, rather than restrain or lessen, competition.

WHEREFORE, defendant Girard Trust Corn Exchange Bank demands that judgment be entered in its favor against the plaintiff, with costs.

Barnes, Dechert, Price, Myers & Rhoads. By /s/ Philip Price, Attorneys for Defendant, Girard Trust Corn Exchange Bank.

March 10, 1961.

[fol. 22] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

ANSWER OF DEFENDANT, THE PHILADELPHIA NATIONAL BANK —Filed March 10, 1961

Defendant, The Philadelphia National Bank (Philadelphia National), answers plaintiff's complaint in accordance with the numbered paragraphs thereof as follows:

First Defense

1. Philadelphia National denies that this court has jurisdiction of this action and the complaint filed herein either under Sections 1 and 4 of the Sherman Act, or Sections 7 and 15 of the Clayton Act. In further answer, reference is made to the Second Defense of this Answer.

2, 3 and 4. Admitted.

5. Philadelphia National is advised that the first and third sentences of paragraph 5 allege conclusions which require no answer. It is admitted that demand deposits and the activities mentioned in the fourth sentence of paragraph 5 constitute, in general, activities of commercial banks, but it is denied that all such activities are performed by all commercial banks. It is denied also that the services referred to in paragraph 5 are unduplicated by other financial institutions. The remaining allegations of paragraph 5 are denied.

[fol. 23] 6. Denied.

7. Philadelphia National denies that commercial banking in the City of Philadelphia and the surrounding metropolitan area is heavily concentrated in a few banks as alleged in the first sentence of paragraph 7. The remaining averments in paragraph 7 are denied as stated. Further answering, Philadelphia National alleges that the concept of local commercial banking concentration, and the examples thereof, as set forth in paragraph 7, are improper and irrelevant because, inter alia, they fail to take into account

various additional banking functions; the broad geographical area, from New York to California, within which banking services are rendered by the defendants, within which competitors of the defendants are located, and within which the defendants compete for deposits, loans, etc.; and the competition furnished to local commercial banks by commercial banks in the broad area mentioned, and by other types of financial institutions.

8. Philadelphia National admits that it conducts a general commercial banking business through 27 offices, 10 of which are located in Philadelphia and 17 of which are outside of Philadelphia, and that, as of June 30, 1960, it had total assets (including reciprocal bank balances) of $1,086,147,170, total deposits (including reciprocal bank balances) of $946,306,784, and total loans of $523,612,316. Philadelphia National further admits that, as of June 30, 1960, approximately 57% in dollar amount of its loans were in the commercial and industrial category. Philadelphia National is without knowledge or information sufficient to form a belief as to the truth of the remaining averments of paragraph 8.

9. Philadelphia National admits that Girard conducts a general commercial banking business through 38 offices, 20 of which are located in Philadelphia and 18 of which are outside Philadelphia, and that, as of June 30, 1960, Girard [fol. 24] had net assets of $740,920,000, net deposits of $650,790,000 and net loans of $399,362,000, of which 49% in dollar amount were in the commercial and industrial category. Philadelphia National is without knowledge or information sufficient to form a belief as to the truth of the remaining allegations of paragraph 9.

10. Philadelphia National denies the allegations contained in paragraph 10 of the complaint, except it admits the following: Since 1950 Philadelphia National has acquired by merger 8 smaller banks and has acquired certain assets and all the deposit liabilities of another. Of these, only 2 were located in Philadelphia. Since Girard's formation in 1951 it has acquired 5 smaller banks, only 2 of which were located in Philadelphia.

11. Philadelphia National admits that it and Girard compete with each other in certain but not all banking services and in certain but not all geographical areas. Philadelphia

National denies that the competition between it and Girard is such that the consummation of the proposed merger would significantly or substantially lessen competition with respect to the performance of banking functions. It is further averred that defendants also compete with commercial banks, saving fund societies, savings and loan associations, credit unions, pension funds, profit-sharing trusts, consumers discount companies, general finance companies, insurance companies, sales finance companies, small loan companies, factors, direct lending agencies of the federal government, and other institutions, agencies and businesses located not only in Philadelphia but in all the regional, national, and international areas served by the defendants in the performance of commercial banking functions.

12. Philadelphia National is without knowledge or information sufficient to form a belief as to the truth of the allegations of paragraph 12.

[fol. 25] 13. Philadelphia National admits that if the proposed merger between it and Girard is consummated the merged institution would be the largest commercial bank which has its head office in Philadelphia in terms of number of banking offices, assets, deposits and loans. It is denied that the merged institution would be approximately 50% larger than its largest competitor inasmuch as the competitors of the merged institution would include institutions of the types and in the geographical areas referred to in paragraph 11, many of which are as large as, or substantially larger than, the proposed merged institution. Philadelphia National is without knowledge or information sufficient to form a belief as to the truth of the last sentence of paragraph 13, but denies that the concept of local commercial banking concentration is proper or relevant for the reasons, inter alia, set forth in paragraphs 7 and 11 of this Answer. For the same reasons, Philadelphia National alleges that the percentages as used in paragraph 13 and throughout the complaint are improper and misleading.

14. Admitted, except that the last sentence states a conclusion of law which requires no answer.

15, 16, 17, 18 and 19. Philadelphia National denies the allegations of paragraph 15, 16, 17, 18 and 19 of the com-

plaint, except it admits that on December 20, 1960 Philadelphia National and Girard entered into an agreement of merger. Further answering, Philadelphia National avers that the proposed merger will increase competition with the numerous kinds of institutions, and throughout the broad geographical area, referred to in paragraphs 7 and 11 above.

Second Defense

20. On November 15, 1960, pursuant to approval of the Boards of Directors of Philadelphia National and Girard of a program for merger of those banks and pursuant to [fol. 26] the statutory requirements of the National Bank Act, as amended (12 U.S.C.A. § 215), and § 18(c) of the Federal Deposit Insurance Act, as amended (12 U.S.C.A. § 1828(c)), an application was made to the Comptroller of the Currency to obtain his approval and consent to the proposed merger. Thereafter, more information in support of the application was submitted to the Comptroller. The application and such additional information was also supplied to the Assistant Attorney General in charge of the Antitrust Division of the Department of Justice, and additional information was supplied to him pursuant to his requests. The Comptroller received reports concerning the competitive factors involved in the proposed merger from the Federal Deposit Insurance Corporation, the Federal Reserve Board, and the Attorney General, reports which Congress has provided shall be advisory only. These reports and the other information available to the Comptroller were carefully considered by him pursuant to the statutory direction that he determine whether the proposed merger is in the public interest after considering seven enumerated factors, including "the effect of the transaction on competition (including any tendency toward monopoly)" (12 U.S.C.A. § 1828(c)). On February 24, 1961, the Comptroller found, after considering all the factors enumerated in the statute, including that quoted above, that the proposed merger will be in the public interest, and gave his approval to it. On February 28, 1961, he sent the defendants written notice of his approval.

21. The approval and consent of the Comptroller of the Currency to the merger of Philadelphia National and Girard

is the exclusive and final determination of the legality of the proposed merger.

Third Defense

22. The decision of the executive branch of the United States having been rendered by the Comptroller of the [fols. 27-59] Currency, the official specifically designated by Congress to make such a decision, a suit in the name of the United States brought by the Attorney General to overturn this decision should not be entertained.

Fourth Defense

23. Neither the Sherman Act nor the Clayton Act is applicable to the transaction alleged in the complaint.

Fifth Defense

24. This court lacks jurisdiction over the subject matter of this action.

Sixth Defense

25. The agreement of merger and the merger which it contemplates do not constitute an unreasonable restraint of trade within the meaning of Section 1 of the Sherman Act, nor would the effect thereof substantially lessen competition or tend to create a monopoly within the meaning of Section 7 of the Clayton Act. To the contrary, it is averred that such merger will promote competition.

Seventh Defense

26. The complaint fails to state a claim upon which relief can be granted.

Wherefore, defendant, The Philadelphia National Bank, prays that the complaint be dismissed and that judgment be entered for its costs.

/s/ Arthur Littleton, Attorney for Defendant, The Philadelphia National Bank.

March 10, 1961

[fol. 60] IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

Transcript of Pre-Trial Conference

Philadelphia, Pa., May 2, 1961, at 11:00 A.M.

Before Hon. Thomas J. Clary, J. (In Chambers)

PRESENT:

George D. Reycraft, Esq., Special Trial Section, Antitrust Division Department of Justice, Washington, D.C.

James A. Reed, Esq., Attorney, Department of Justice.

Morgan, Lewis and Bockius by Arthur Littleton, Esq., Ernest R. von Starck, Esq., Donald A. Scott, Esq., Don B. Blenko, Esq., for the Philadelphia National Bank.

Barnes, Dechert, Price, Myers and Rhoads by Raymond W. Midgett, Jr., Esq., Minturn T. Wright, III, Esq., John J. Brennan, Esq., for Girard Trust Corn Exchange Bank.

PRE-TRIAL CONFERENCE

[fol. 61] Mr. Midgett: Sir, I should probably introduce to you, if you don't know him, John Brennan of our office.

The Court: Oh, yes, I have met Mr. Brennan.

Mr. Midgett: And Mr. Wright.

Mr. Reycraft: May I introduce James Reed of our office.

The Court: Nice to see you, Mr. Reed.

Mr. Littleton: I think you know all my colleagues—Mr. von Starck, Mr. Scott, Mr. Blenko.

The Court: Yes.

Now, we are assembled for a purpose.

Mr. Littleton: And we are most grateful to you, Your Honor, for seeing us at this time.

I asked for the priviledge of coming down and talking to you to see if you could help direct the course of events. It is as a result of a telephone conversation between Ernest von Starck and I think Mr. Reycraft last Wednesday. There was a problem arose, and that was the cause of my asking for this conference.

There was a second question that we thought we would discuss. I say this because on Friday we had a letter from the Department of Justice on another subject, which immediately added to the problem we were going to submit to [fol. 62] you, but it was as nothing compared to the letter which we received yesterday with its contents, so that the thing has burgeoned into a large-sized instead of a small-sized discussion on which we are going to ask you to bear with us.

Now, the initial problem which moved me to ask you to let us come down is this: A great deal of the evidence in this case will doubtless be in the form of statistics on both sides from authorities which everybody recognizes. I mean statistics from the Federal Reserve Board and such bodies. Therefore, an attempt to get some of the very necessary information into statistical form has been made by us in this wise. We are very much interested, because of the thrust of the complaint, which, as Your Honor knows, is not at competition in all the fields in which the banks operate, but simply competition within the Philadelphia area. I think four times in the complaint it is stated, "competition in the Philadelphia area." The thrust of the complaint being that, we want to address ourselves to what our competition is in the Philadelphia area, or to state it another way, what is the banking market, the relevant market, in the so-called Philadelphia area?

Now, as to that, as to some of it, we get it from the reports of the Third Federal Reserve District; we get it from the Secretary of Banking of Pennsylvania; we get [fol. 63] it from the Secretary of Banking of New Jersey; we get it from the Secretary of Banking of Delaware; and we are getting that information or have gotten some of that information from each of those officials or Boards, and the Government is entirely satisfied, I understand, with that, but now there is something else which touches very strongly and effectively on this question, and that is the market or the competition which is created by the very strenuous efforts of banks outside the Philadelphia area, notably, New York, but other cities besides, who constantly have solicitors in the Philadelphia area soliciting business. We all know that. There will be some testimony undoubtedly adduced at the trial from those who have been solicited, but

obviously you can't bring in everybody that is solicited, and we are therefore very anxious to ascertain what the New York solicitation of business is in the Philadelphia area, to help us in finding out what the market is of which we are told by the complaint this combined bank is going to have a certain percentage. We want to know what that market is, but in addition to that, and as really the other side of the shield or the coin, we want to know what our competition is in the market, because we are competing, not only with Philadelphia banks and other financial institutions, but we are competing with these banks which come [fol. 64] in here and have solicitors in here in droves at all times endeavoring to solicit and successfully soliciting business.

Now, where to get that? The Second Federal Reserve District does not put out figures as to the business which comes to the New York banks from this Philadelphia area.

In 1955 there was a special report made which did include this particular item for the area and also for Philadelphia within its corporate limits, which showed very substantial business going to the New York banks from the Philadelphia area.

Not being able to get a similar report from the Second Federal Reserve Bank, because it is not available for the current situation, we solicited the help of eight of the largest of the New York banks, the ones that we knew had people over here soliciting, and found them most cooperative, and, indeed, without their cooperation it would be impossible to get this kind of information. It is not the kind of thing one could get by depositions, for instance. It has got to have the cooperation and willing help of the New York banks, and they were prepared to give it provided that it be all on an anonymous basis and be all on a group or total basis. So we conceived the idea of having a reputable firm of accountants, to wit, Peat, Marwick, Mitchell & Co., employed by us to visit each of these banks, [fol. 65] and we armed Peat, Marwick, Mitchell & Co. with a questionnaire which they have used in eliciting information on this score from each of the banks, with the thought in our mind that when they had gotten that material, they could collate it and be prepared to testify in this case as

to the totals in each of the categories of this particular questionnaire.

Will you give the judge a copy of the questionnaire.

(Copy of questionnaire handed to the Court.)

At the time Mr. Reycraft and his associates were taking the depositions of Mr. George Brown, the president of the Girard Trust Company, we talked to Mr. Reycraft and told him that this is what we were doing and asked him if he would be willing or the Department would be willing to agree that this type testimony not only was desirable, but would be not objected to by him, and asked him if he would take a look at the questionnaire and the whole plan and give us any suggestions he might have with regard to it; and beyond that we said that we would be perfectly willing and happy if he cared to have someone from his staff or someone selected by him accompany the gentleman from Peat, Marwick, Mitchell & Co. in his visit to the banks to make certain that the proper questions were asked and the proper field was covered and the proper answers were [fol. 66] made and that the answers were as made, and for such other purposes as he wanted, and he said that the Department would take that under consideration.

Now, on Wednesday last, in a telephone conversation, we got word from them that the Department of Justice could not agree to go along on that, and in a letter which I will refer to at more length a little later, which arrived yesterday morning, dated April 28, from the Department of Justice, in Paragraph 6 of such letter, which letter covers a variety of subjects, but as to this particular subject it says:

> "You have informed us that you intend to obtain a ruling from the Court on the survey proposed by defendants of the extent of competition from New York banks in the Philadelphia area. As we have advised Mr. von Starck we are unable to agree that this survey should be admitted in evidence without the right to cross-examine officials of the New York banks who it is contended are in actual competition in the Philadelphia area. We believe it can be established that any such competition is not significant and will

wish to consider taking the depositions of those banks outside the four county area which are claimed to be in competition in Philadelphia. We believe it to be [fol. 67] essential to develop the record fully on the nature and extent of any such claimed competition."

Of course, this goes right to the heart of the conditions under which the New York banks are willing to divulge this information to Peat, Marwick, Mitchell & Co. and their desire to keep the names of their customers unnamed or anonymous, and where they desire to have only totals given and not have a breakdown among banks, and, indeed, that was exemplified by a letter that we have from counsel for one of these banks, under date of April 25, in which he said:

"Before turning the material over to Peat, Marwick, Mitchell & Co., we will wish to have assurance that you have a definite agreement with the Department of Justice that the arrangement for Mr. Carroll to testify as to aggregate amounts of all the banks without disclosing the particulars as regards Morgan Guaranty Trust Company of New York (or any other bank) will be adhered to and that there will be no attempt to obtain the figures for the individual bank in any other manner such as subpoena or otherwise. We deem such assurance essential for the protection of the bank's customers."

[fol. 68] Now we are faced with the refusal of the Department of Justice to permit us to produce this kind of statistical testimony unless they are given the right to go in and cross-examine the officers of each bank as to customers and how much they solicit, generally to open the whole subject up, which is, of course, a thing that we can't possibly do, because of our arrangement with them, and which no bank could possibly permit us to do; and yet it seems to us that the Department, not being concerned about the statistics that we get from the Third Federal Reserve District as to the market in the Philadelphia area, our competition in the Philadelphia area, and from the three State Secretaries of Banking—Pennsylvania, New Jersey, and Delaware—there they are accepting statistical information

—this, it seems to us, is exactly the same nature, and we simply can't understand why the Government should object to it when it will throw so much light on one of the big issues that they have raised in this case.

Now, in saying all this I don't want for a moment to have any inference taken that we are not contending all the way through that our competition lies beyond the Philadelphia area as well as within the Philadelphia area. We are addressing ourselves simply to that part of our competition which is the main thrust of the Government's complaint against us in this antitrust suit.

[fol. 69] Now, what we can do about it, I don't know. We want to put the evidence in. As I say, there will be, I don't want to use the word "sporadic," but there will be people, if we can develop them, and I am sure we can, because I know that many, many of our customers are solicited by New York banks, who will say, "Yes, I was solicited 36 times within the year 1960 by A, B, C bank from New York and such and such a bank from Boston"; but to get the whole picture across to Your Honor, and the magnitude of the thing, in other words, the over-all statistics of the thing, this was the method which we thought could do it, but we are met with a complete refusal on the part of the Government unless they have the right to go ahead and open up all the confidential things which the New York banks quite naturally insist upon maintaining.

Mr. Reycraft: Your Honor, I would like to correct one statement of Mr. Littleton in which I am sure he didn't realize our full position on the matter. As far as the statistics involving the banks in the local area here, we do feel that it is necessary to get the statistics by individual banks, and we have, in fact, prepared deposition subpoenas to the banks in order that we can show the breakdowns of loans by banks in the Philadelphia area.

[fol. 70] Now, with respect to the New York survey, our problem on this I think is really very simple. It is that Mr. Littleton wants to offer this exhibit in evidence to show competition from New York banks in the area and wants us to give up completely any right to develop the qualitative aspects of that competition, to develop the nature of the accounts which are solicited by these banks, the reasons some of these customers might be going to a New York bank,

and we just simply don't feel that we can give up this kind of right. We think we have to know, for example, which statistics come from which of the New York banks. For example, we wouldn't know, as I understand the table, whether 50 or 60 per cent of this claimed competition came from one bank and if the rest was distributed among the smaller banks. So we think that we do have the right and should have the right to examine these officials from the banks on the amount of the efforts they devote to obtaining business in the Philadelphia area.

The Court: Well, why not send one of your lawyer-accountants—and I know you have them in the Department—with their investigator?

Mr. Reycraft: Well, Your Honor, is it suggested that [fol. 71] we have one of our attorneys go to each of the banks to work with the accountant who is assigned to it to develop this information? We then have access to it. We are being asked to give up the right to use this information in any way we think is helpful to our case.

The Court: I don't see how you are asked to give up anything helpful to your case, except that they want to keep their list of customers a business secret.

Mr. Reycraft: I think that is the kind of thing that might well be taken care of, Your Honor, by a protective order at the time, but Mr. Littleton is asking us to give up in advance any right to call an officer of the bank, for example, to testify. We would ask him, "How many men do you have soliciting accounts in the Philadelphia area? Do these men live in the Philadelphia area? How much of their time do they spend there? What type of accounts do they seek? What is their industry specialization? What percentage of your bank's time do you spend soliciting in other cities? Is this comparable to Philadelphia?"

All of these questions are matters which Mr. Littleton is asking us to give up in advance, and we don't really see how we can do this.

Now, as far as going to the banks themselves, Your Honor, with an attorney to accompany their investigator [fol. 72] to examine and analyze these accounts, this is the kind of thing that it might be possible to arrange. Now, I don't know any more about these arrangements Mr. Littleton has with the banks than he has told Your Honor. He

has told me this previously, and I think this may be the total of the arrangements which he has, but we may wish to develop information from the banks while we are there which Mr. Littleton does not wish to develop, and then we wouldn't wish to give up our right to do this.

The Court: I haven't, of course, had a chance to analyze the questionnaire, but isn't this pretty much the same as the type of statistic that I find in the Federal Deposit Insurance Corporation and the Federal Reserve Board?

Mr. Reveraft: Well, each of the banks, Your Honor, submits a call report to the Federal Reserve Board or the Comptroller, as the case may be, and also the state banking agencies, of their over-all statistics of these banks broken down to show the distribution of their loans and deposit accounts. This type of information, to show a complete over-all picture of the bank's operation on a generalized scale, is, of course, a valid public record. It is maintained by the Federal Reserve Board pursuant to its responsibilities, and the Comptroller, and we have no problem with the accuracy or the fact that they are representative of the [fol. 73] bank's entire business. Now, what we are being asked to do here is to take a sample of information which is the result of sporadic efforts by these banks to develop business in the Philadelphia area.

The Court: How do you know they are sporadic?

Mr. Reveraft: I am not sure, Your Honor.

The Court: That is just the point that I am raising. You are making a statement of fact. If they have a regular course of operation you could find that out by accompanying this man. These will be facts as developed, won't they, that they do business in Philadelphia, that they have a certain number of solicitors in Philadelphia, and the sum total of all of them. Certainly one bank may account for 99 per cent of it. That fact you would be able to show. Of course you would be able to show it. Your men would know it, and you could ask this representative, "Isn't that out of only one bank?"

I don't suppose that you are precluding that kind of questioning, Mr. Littleton? You are not trying to, are you?

Mr. Littleton: No, so long as the name of the bank is not given.

The Court: So long as the name of the bank and the name of the customer are not revealed.

[fol. 74] Mr. Reycraft: Your Honor, as far as the name of the customer is concerned, I would think this could be taken care of by classifying the customer as a commercial or industrial customer or a private customer. This is the kind of thing that I think can be taken care of by classification, but the extent of the competition which a New York bank is able to afford in the Philadelphia area I think can only be developed by examining the people who do in fact do the business in this area.

The Court: Let us assume that one bank in New York has three solicitors in Philadelphia and only three solicitors, that out of that they service three accounts, that out of those three accounts they take into New York commercial transactions of a half billion dollars a year. Is that a fact?

Mr. Reycraft: That may be a fact, yes.

The Court: All right. Let us assume that another bank has five solicitors in Philadelphia and that they take back $100,000,000 out of X number of accounts. Is that a fact? Is New York in competition with Philadelphia on those two?

Mr. Reycraft: Well, as a conclusion, Your Honor, the extent and degree of competition I think is the important [fol. 75] issue, and that is the type of issue where we think we may wish to examine the officers of the bank. Now, I do not say that we will wish necessarily, and even more likely not, to put in the names of the particular customers involved. I understand the banks' reluctance to have this kind of information made public, and I think if we can classify the accounts, if it is Your Honor's wish that we accompany Mr. Littleton's investigator——

The Court: It most assuredly is my wish that you do that.

Mr. Reycraft: And to develop such information.

The Court: Suppose you develop that they have nothing, that these New Yorkers get nothing out of Philadelphia. We don't know what it is going to be. The impact of their application—and I just re-read all of these reports this morning—is that they are constantly losing available business; is that right?

Mr. Reycraft: This is their claim.

The Court: Isn't that the fundamental basis of their application?

Mr. Reycraft: This is their fundamental defense, yes, sir.

The Court: Therefore, there is or is not. This can be determined. I am very sympathetic, definitely, with the position of the bank that they don't want to be categorized [fol. 76] by name or the customers embarrassed, that there is or is not a certain amount of business going to New York. The classification of commercial, industrial, personal, plant and expansion, and so forth, I am quite sure that that would pose no difficulty.

Can you see any, Mr. Littleton?

Mr. Littleton: I can't see any.

Mr. Reycraft: Your Honor, if we are offering to develop such information as we require from these banks in order to develop our side of this argument, then I suggest that we leave it until the time comes when a problem arises.

The Court: Well, I think that this type of information is important and most important because you have, in effect, said that this would destroy competition between these two banks and between these banks and other banks around Philadelphia; and as I read those reports, without carefully examining them—believe me, I haven't carefully examined them; I haven't analyzed statistics or anything else—it may be that you treat Philadelphia parochially and say that Philadelphia banks may or may not go outside of Philadelphia. You may be perfectly right. The impact of the destruction of competition between the Girard and the Philadelphia National Bank may be of the utmost im-[fol. 77] portance; it may not be. That has to await the disclosure of all of the evidence.

Mr. Reycraft: Exactly.

The Court: But the fact is that you are throwing road blocks into one of their prime contentions and perhaps disclosing information which in the ordinary course of business isn't disclosed—names of customers, names of banks, and so forth and so on. They want to keep their lines open. It is a bit of a business secret. If the public good requires it, perhaps we have to destroy that cloak of anonymity, but at this point I don't see any reason for doing it.

Mr. Reycraft: Well, I would say, Your Honor, that it is premature to decide whether this information is entitled to protection, and I am perfectly willing to have one of our people go along with an investigator to develop all of the facts, not only the facts that Mr. Littleton wants to develop, but the facts which we may think relevant.

The Court: Have you tried to throw any road blocks on that?

Mr. Littleton: No.

The Court: First we have to understand that the names of customers, names of banks, at this point are not to be revealed.

Mr. Reycraft: As far as the names of the banks are concerned, Your Honor, I may say it is perfectly obvious [fol. 78] to me who the large New York banks are, and I think these gentlemen may have given me a list of the names. I don't know them offhand, but the New York banks who are the larger banks are perfectly obvious, and there is no secret about who those banks are, so that I think, for example, if the Chase Manhattan has a commercial department which is very aggressive in the Philadelphia area but is not interested in Chicago, for example, that I should be permitted to develop this kind of information. I don't think that I should be restricted at this point to keeping the names of the banks confidential for all time.

The Court: Nobody is undertaking that at this time. The bank says that it will not furnish information unless it is assured at this time that it won't be made known. I can't possibly guarantee for all time any anonymity of bank or customer—I am not proposing to do it—but I say that I would have to be shown pretty compelling and and impelling reasons to open up that situation.

Mr. Reycraft: That is a serious question, Your Honor, which I agree is entitled to great weight. My problem at this time is, suppose that I now wish to state that I want to call the head of the Commercial Loan Department at the Chase Manhattan Bank, the Morgan Guaranty, the Chemical Corn Exchange, the Bankers Trust?

[fol. 79] The Court: You could do it as part of your case.

Mr. Reycraft: That is what I assumed, Your Honor, and I think there is no question about that, and that is

what I understand Mr. Littleton and the New York banks are asking me to agree that I won't do.

Mr. Littleton: I would have to say that that is what the New York banks have asked, that they not be quoted as to any of the details of this and that the things be given simply in total.

Mr. Reycraft: Who knows better than the head of the Commercial Loan Department of the Chase Manhattan Bank the quality of its competition in the Philadelphia area? Now, I don't doubt at all that the Chase Manhattan Bank does get loans from the Philadelphia area and gets some deposits from the Philadelphia area, but the extent and the degree of the competition I think that I must be given the right to develop by calling a witness from that bank if it is necessary to my case to do so.

Mr. Littleton: The point of inquiry, if Your Honor please, is the amount. I don't see that breaking it down into banks, that one bank has 80 per cent and another bank has 10 per cent, has anything to do with it. For instance, we have the 1955 report of the Federal Reserve Bank of New York, and I only wish we had a similar 1960 report. [fol. 80] This is a special report. If we had a 1960 report of the Federal Reserve Bank of New York as to this, I am quite certain that Mr. Reycraft would offer no objection to the statistics going in.

In this particular report in 1955, commercial loans made by Second District member banks to borrowers in other Federal Reserve Districts, on October 5, 1955, Philadelphia Federal Reserve District, $308,000,000 at that time loaned by banks in the Second District to customers in the Third Federal Reserve District; and in Philadelphia itself, $113,000,000 of such loans. Now, that is the kind of statistic that we desire to get, and as to the quality, you will notice, if I understand what Mr. Reycraft means by the quality, that this questionnaire does break it up into the types of loans. That is what we are asking for, and the type of business.

Mr. Reed: Your Honor, may I say something?

The Court: Surely.

Mr. Reed: Along with what Mr. Reycraft is saying, I think one point here which is certainly worthy of consideration is this: Take the petroleum industry, for example.

The applying banks here have indicated that that is the type of business they could get. Well, I think historically, probably, it can be proven beyond too much question [fol. 81] that the New York banks have been handling that type of loan because they have specialized in that particular field; so what I am saying, in effect, is that if you indicate you just have a plain unadulterated statistic saying that X bank in New York takes certain business away from Philadelphia, because they have the Atlantic Refining account or something of that nature, I think there are further facts, all of which are important, to understand that particular figure.

For example, how long did X bank in New York have a relationship with Atlantic Refining? In other words, perhaps it is the type of loan which has not been taken away from the Philadelphia banks through competition. It is the type of loan that has gone to X bank in New York because they have specialized in that type of business for years.

Now, one other point that I would like to make——

Mr. Littleton: May I answer that first?

Mr. Reed: Yes, sir.

Mr. Littleton: I just want to say that I am not at this point talking about New York banks that have taken business away from us. We are here faced with a bill of complaint which says that when this merger goes through, we will have a certain percentage of all the banking business in the Philadelphia area and that that is bad for competition. I want to determine what the business in the Phila- [fol. 82] delphia area is, the banking business available in the Philadelphia area. In other words, I want to find out what our competition is. The whole theory of their bill of complaint is that our competition in the Philadelphia area is just Philadelphia banks. I say it is not, that it is these New York banks that are coming over here, in addition to the Philadelphia banks and in addition to the banks that are coming in from any other cities.

Mr. Reycraft: We would like to help them develop these facts, Your Honor——

Mr. Littleton: Excuse me. And the point I am endeavoring to make here and that we are endeavoring to establish by this type of testimony, if you please, is that the mark t

or the competition is much greater than the Government concedes it to be, because you have not only all the Philadelphia banks that are in competition, but you have these New York banks over here actually in Philadelphia soliciting business and getting it.

The Court: Is your idea merely to place on the record that there is this potential market in Philadelphia, that there is a market here, and that the banking credits, and so forth, are being extended to X amount? Is that your only purpose?

[fol. 83] Mr. Littleton: That is right, and that the New York banks are actively and strenuously soliciting that business and getting it.

Mr. Reycraft: And we would like to help develop these facts, Your Honor. I want to make clear that we are not trying to keep any facts out of this record which are properly established.

The Court: We come to a point that your associate here has raised, which is very interesting, that you would attempt to establish: Forget about this, discard it, because historically it has gone to New York.

Mr. Reycraft: We might put on a witness who would explain these statistics, explain the type of business the New York banks compete for. We might be able to establish, for example, that there are certain types of business which the New York banks do no compete for at all, and I think this is the kind of testimony which Mr. Littleton is trying to foreclose us from putting on.

The Court: Mr. Reycraft, I have to disagree with you that he is trying to do that. He is faced with a problem that is presented to him. As I see it, the New York banks have raised this problem; Mr. Littleton hasn't.

Mr. Littleton: And I don't see that it makes any difference what kind of business these banks are after. If they are after any business, if they are after any banking [fol. 84] business, they are in competition with us. If they are after any banking business, it is part of the market in which we operate.

Mr. Reed: Your Honor, I was raising that point before to really lay the basis for what I think is the practical observation here. Suppose that we go along with what Mr. Littleton and his colleagues suggest, that they have

a man from Peat, Marwick, Mitchell & Co. go into a certain bank and we are allowed to have one of our men there also. Now, it seems to me at that point we may get into a real impasse. In other words, if the Peat, Marwick, Mitchell & Co. follow asks a question, we would have a right, I presume at that time to try and delineate that question more, in other words, have it refined and refined, and so forth, to a state where we think our interests are perfectly protected. What I am saying is, I wonder just exactly how much information we would finally end up getting after going through all this, because this questionnaire, as I see it, probably would not be nearly large enough or complete enough to put into categories all the information we would elicit.

Mr. Littleton: If it is banking business being solicited, I cannot see what relevance there is as to whether it is oil business or what kind of business it is or which bank is soliciting it. If the New York banks are soliciting [fol. 85] banking business, and if they are getting a certain number of hundreds of millions of dollars of loans or deposits each year, that is the thing which we, and I think Your Honor, is interested in.

Mr. Reycraft: If I might suggest, Your Honor, we would be willing to have a man go along to these banks to ask certain questions as we think are appropriate to put the answers and the information in such form as we think is necessary and at that time to consider whether there is any need for any giving up of a right to call witnesses. I must say in all candor that I think at this point if we are going to go into this New York situation, that we must ask the right to put on witnesses to explain the type of competition.

Mr. von Starck: If Your Honor please, if I may just say a word, in the Attorney General's report to the Comptroller they say that, in effect, this merger is bad because the merged bank will have 37 per cent of the total deposits in the Philadelphia area, 21.1 per cent in the Philadelphia National service area, and so forth. They don't distinguish there between historical relations between banks. They are not curious there as to why a customer goes to a particular bank in the Philadelphia area. Now, when we try to inject the New York figures, which will obvi-

ously reduce these percentages, suddenly they are curi- [fol. 86] ous about customer relationships. This I just don't understand. They use statistics for one purpose, but when the statistics are developed in a way that might be against them, they oppose them.

The Court: How much delineation would you require? What do you want to know over and above what they have asked for?

Mr. Reycraft: Your Honor, we would like to have our man go to the banks to ask such questions as the information which is revealed indicates necessary to us. We would like to have the opportunity then to call the heads of these commercial departments, if necessary, to develop the kind of business that they do in the Philadelphia area, and if Mr. Littleton only wants statistics, if these statistics can be put together in such a way that we think they are accurate, we would be willing to try to work with him on that.

The Court: Let me ask you this: If the Morgan Guaranty has commercial deposits as of January 1, 1961, out of the Philadelphia area, of X dollars, they have commercial loans in Philadelphia of X dollars, they have time deposits of X dollars, that is banking business out of Philadelphia, isn't it?

Mr. Reycraft: On those facts, yes, sir.

The Court: Then there is that much more banking business in Philadelphia that isn't reflected in your statistics. [fol. 87] Mr. Reycraft: Your Honor, I would agree. If an officer of Morgan Guaranty gets on the witness stand and says that he gets this much business from the Philadelphia area, he is perfectly entitled to have that testimony, and I wouldn't object to it on that basis, but what he is asking me to do is to take these statistics without knowing or being able to show on the record what the banks are that have the business or what the nature of the business is. As Mr. Reed has stated, if it is all petroleum business, there may be reasons why all the petroleum business goes to New York on a regular basis whereas other types of business, more local in nature, would rarely if ever go outside the Philadelphia area, and he is asking, really, that we agree in advance, before ever looking at any of these records, before talking to any of these people from the bank, to give up for all time the right to call

any witness from any of these banks during the trial, and this is the kind of thing I don't really see how he can ask us to do.

Now, if it is Mr. Littleton's wish that we have someone accompany his accountant to New York to talk to the banks, we would be willing to do that. We would be willing, to the extent that we can develop statistical information which is not really subject to doubt or attack, to have it go into evidence without objection, but we cannot agree [fol. 88] in advance to give up our right to call witnesses from these banks if we think it is necessary to our case. I have never really heard a suggestion of this nature being made before, that we should give up the right to call witnesses from all companies involved in statistical surveys.

I might say, in another case that we have pending, we are conducting a census of the entire prefabricated housing industry. We have sent questionnaires out. We have had to make these census forms with the names of the companies, the geographical area of their business, available to the defendants. We wouldn't even consider or think of asking the defendants to stipulate that a summary of this census would go into evidence without showing them our underlying material. I never dreamed of asking anyone to agree that they wouldn't call an officer of any of these companies to testify about the nature of the business that they were engaged in, which is what we are being asked to do here.

Mr. Littleton: It seems to me the banking business is the banking business, and if New York is getting a certain share of it, whether it be deposits or loans or time deposits or foreign business, the aggregate figures are what we are interested in to determine what the market is and what our competition is. We are, as Your Honor has observed—and it is there in the letter and also orally with each of [fol. 89] these banks—we are under the strict injunction that if this is done, it will have to be with complete anonymity and without anybody being called from the banks, so we are just up against that particular proposition. I can't see where, whether it is the oil business or wool business, makes the slightest bit of difference. The banking business, that is what we are interested in.

The Court: I still don't see, Mr. Littleton, where I can

foreclose the Government from forever explaining statistics if there is any explanation.

Mr. Reycraft: I am not even saying it is necessary at this time, Your Honor. I think it may be, to be quite frank about it, but to the extent that we can protect anybody's business relation, we would be very willing to do it, and we are willing to be reasonable in every respect on this type of information. We realize that banks have a very difficult problem in disclosing names of depositors and borrowers, and we don't want to embarrass anyone; but at the same time we really think, in fairness, we ought to have the right to make these decisions as we are confronted with the facts and as the situation develops.

The Court: I can't and don't intend to foreclose you on it, but it seems to me—a strictly off-the-cuff or drugstore opinion, or whatever you want to call it—that you are [fol. 90] taking the statistics of this area, and the question keeps recurring to me that X number of New York banks get X amount of business in Philadelphia.

Mr. Reycraft: Yes, and we have no objection to these facts going in, Your Honor.

The Court: That is all that Mr. Littleton is asking, to establish something which you have, at least, and different agencies of the Government have sort of passed over, that the market in Philadelphia is substantially greater than your statistics indicate.

Mr. Reycraft: We think he is fully entitled to develop this information in any way he can.

The Court: But over and beyond that your point is that you don't want to be precluded from showing that Philadelphia can't get this, in any event. Now, that is, in effect, what you are trying to show.

Mr. Reycraft: That is exactly right, Your Honor. That is it in a nutshell.

The Court: I see the point.

Mr. Reycraft: We may be wrong, but we think we should have the opportunity to show this.

Mr. Littleton: This is the Government's case. They are bringing the case against us, and they are making the assertion as to the market or the competition in the Phila- [fol. 91] delphia area, and I might suggest to them that if, when they talk about it or try to get testimony about

it, they give only the Philadelphia figures, the figures of the Philadelphia banks, that might be irrelevant, it might be objectionable, because if the haven't included the competition——

Mr. Reycraft: In Mr. Littleton's application here, which is quite voluminous, he claims competition from banks all over the world, and I don't think I should be required or can be required to produce every bank that he thinks may be in competition with them. As far as the claims are concerned, I have gone over this application in some detail, and this is, of course, what the Comptroller relied on, and there are a great many facts in here, but, on the other hand, there are a great many claims for which I don't know what the supporting information is.

Mr. Littleton: May I say that if one of Mr. Reycraft's staff goes with the Peat, Marwick, Mitchell & Co. men, he will learn how many solicitors from that particular bank are working in the Philadelphia area.

Mr. Reycraft: I have agreed to do this.

Mr. Littleton: He will learn what the total deposits are out of the Philadelphia area.

The Court: This may well develop into fear of the unknown, which may never happen. I suggest that you get [fol. 92] on with the survey, and if you come to an impasse, let me know, and come back, and we will settle it at that time, because I think, fundamentally, if there is business in Philadelphia of X dollars that goes out of Philadelphia to New York, and I assume it goes to other places, but New York being the principal source of poaching, that is a matter of importance. I am a native born New Yorker so don't worry that I have any predilection against New York or New York State or New York City, for that matter, but it seems to me that that is an important detail.

Mr. Reycraft: I agree, Your Honor.

The Court: I would like to know how much banking business there is in Philadelphia. Whether they will now be in a position to go after it or not probably would be a matter of importance in the case.

Mr. Reycraft: I agree, Your Honor.

The Court: But it seems to me that the point that a bank has X number of solicitors, that as a result of that solicitation over the last year or two years they have so

many commercial loans, so many time deposits, so many ordinary commercial deposits over there, that is banking business. Those three elements are certainly banking business, and I don't think anybody can complain about it, and if that business originates in Philadelphia and goes to [fol. 93] New York, that is a market available in Philadelphia, not only for the two banks or a merged bank, but all the other banks. They are losing it.

Mr. Reycraft: I think it is quite possible that Mr. Littleton can develop evidence of this type, and if it is in proper form, we won't probably even object to it.

The Court: But it seems to me that those three categories—and I haven't had a chance, of course, to go over this—are fundamentally what he is trying to develop in this area.

Mr. Littleton: Yes, sir.

Mr. Reycraft: And all he wants us to do in exchange is to give up calling any witness from any New York bank.

The Court: Well, I don't see that he can ask you to do that.

Mr. Reycraft: No, sir.

The Court: But at the same time I will say this, that I will respect any agreements made with respect to business secrets. You may not be able to put in the statistic, but it seems to me that the Government ought to in the first instance agree to at least the three categories that I am talking about, that there is that business taken out of Philadelphia.

[fol. 94] Mr. Reycraft: We are willing, Your Honor, to work with him, to have a man go to New York with him to try to develop accurate, reliable statistics as to the amount of business these banks get from the Philadelphia area. We have no problem as to doing that.

Mr. Littleton: With the understanding that the moment we come up against any demand of the Government to call an officer or reveal any of the breakdown by customer or otherwise, that we will have to respect our understanding with the New York banks.

Mr. Reycraft: Well, we have no understandings with anyone.

Mr. Littleton: You have no understandings with anybody, that is right.

The Court: No, but I will respect the understanding

you have, and if you reach an impasse, come on back and I will see if I can't resolve it.

Mr. Reycraft: Your Honor, when you say you are respecting the understanding——

The Court: I may even rule it out of evidence.

Mr. Reycraft: Your Honor, the understanding really relates to the Government's rights rather than to Mr. Littleton's rights. He has an agreement with the banks which will, if effective, prevent the Department of Justice from [fol. 95] putting on certain witnesses. Now, this is the kind of agreement he cannot make on our behalf.

The Court: That is right.

Mr. Reycraft: And I think the kind of agreement which wouldn't be appropriate, the type of order it would not be appropriate to put us under, because I don't see how we can be expected to first agree that one of the important issues in the case is competition from New York banks in the Philadelphia area and then at the same time be ordered that we can't put on witnesses from this area. I think we are going to have to do it.

Mr. Littleton: You say I have an agreement. It is a condition that the New York banks have imposed on us in getting this material. We nevertheless think the material is so germane and so pertinent to the issue that is before the Court that we ought to try to get it subject to the condition, and I think, if you are going to assign somebody, as the judge said, that we ought to get on with it and get on it fast, because this is the 2nd of May.

Mr. Reycraft: We are willing to get on with it and get on it fast, but if that is the extent of our undertaking, we have no objection to that.

The Court: I want you to come back to me and discuss the type of extension of this that you think necessary for [fol. 96] your protection and then let us see if we can't resolve that.

Mr. Reycraft: Your Honor, my conception—and, of course, I haven't been to these banks, so I don't know in detail how it is going to work out from day to day, but we will have someone go to these banks and we will talk to the people in the banks who have the information. We will try to satisfy Mr. Littleton so that he gets the information he needs. We will try to get the information we

think we need, and then if, on the basis of this, there is a statistical tabulation that is admissible in evidence, fine, we would have no objection to it.

Mr. Littleton: May I state it this way: I will understand that I can't put this testimony in if Your Honor rules that as a result of my putting it in Mr. Reycraft will have the right to call these officers, to examine them or cross-examine them or take their depositions or anything else.

Mr. Reycraft: Your Honor, there is no restriction on me now as to calling all New York bankers that I think have relevant testimony.

The Court: Mr. Littleton can't do that, no.

Mr. Reycraft: Of course he can't.

[fol. 97] The Court: If you intend to put that in in your case in chief, well and good. There is nothing that Mr. Littleton can do.

Mr. Littleton: He can't do it with my assistance.

The Court: No, but the point is that you are doing it independently of Mr. Littleton.

Mr. Reycraft: I understand he has a problem, Your Honor, and I can't agree to this, so I thing I understand the situation.

Mr. Littleton: We are trying to get the facts, Your Honor.

The Court: He is merely trying to establish what their market in Philadelphia is, as I understand it, as shown by the statistics of the particular area, plus a certain number of banks in New York.

Mr. Reycraft: We think he is entitled to do that.

The Court: Well, I think he is, too. I would feel pretty bad if the Government took any other position, because I don't think it would be fair.

Mr. Reycraft: We don't, either, Your Honor.

The Court: Let's see if we can get along with that.

Mr. Littleton: Shall I go on to something else?

[fol. 98] The Court: Yes.

Mr. Littleton: In that same conversation last Wednesday there was just a suggestion from the Department of Justice that on the next Monday, which was yesterday, May 1, which is the date on which Your Honor ruled that the Government should furnish us with the names of their witnesses and documents which they expected to rely on,

is was suggested in that telephone conversation last Wednesday by the Government that while they could probably give us the names of some witnesses, they couldn't give us the names of all.

The Court: I would suspect that that would be true.

Mr. Littleton: I will just pass that for a moment and say that on Friday morning we received a letter from the Department of Justice on another subect, and that is this: Back on April 10 we received a written request from the Government as to their desire to inspect and copy certain documents, and on April 13 they made further oral requests, that being the time when the documents were first produced. The Government's counsel inspected documents on April 13, 17, 18, and 19. At the moment the defendant Girard Trust Corn Exchange Bank has delivered to the Government copies of all documents which they had designated for copying to date, and on April 24 they noti- [fol. 99] fied the Government that the balance of the requested documents were available for inspection. The defendant Philadelphia National delivered to the Government copies of all documents which the Government had designated for copying responsive to 11 of the 16 amended requests of the Government, and then additional material has since been inspected by the Government under four of the remaining five requests, the fifth of which has not been finally defined by the Government. On April 26 counsel for the Philadelphia National notified the Government that the balance of the requested documents were available for inspection.

Now, on April 17, at the time of the delivery of the first of the documents, or certain of the documents, the documents being of the nature which some of them were, we accompanied them with a letter addressed to Mr. Reycraft, a copy of which I think we ought to give the Court.

(Letter dated April 17, 1961, handed to the Court.)

Mr. Littleton: Perhaps if Your Honor will just read it, it will be better than my reading it.

(The Court read the letter.)

The Court: Yes, I have read it.

Mr. Littleton: On April 26 the Government wrote us a [fol. 100] letter, which we received on April 28, in which they say:

> "With respect to the conditions relating to these documents expressed in your letter of April 17, 1961 and in a similar letter from Mr. Price dated April 14, 1961, we cannot agree to the proposed limitations. Should we decide to publicly disclose the contents of any of the documents, we shall of course give counsel for the banks ample notice so that you will have timely opportunity to move the Court for any kind of order you think necessary. We believe these assurances are adequate for the present with regard to use of these documents. To the extent that any of the documents involved may be relevant to any law enforcement responsibility of this Department, it is our duty to give them due consideration within the Department."

That was our problem on Friday, and that problem has been magnified many, many times, in quantity at least—the quality is about the same—by reason of another communication which we received yesterday morning, and Your Honor will recall that yesterday morning was the time when we were to receive names of witnesses and statements of documents; and may I say at this point that we have complied with every request of the Government and furnished them with documents and we have arranged to [fol. 101] have depositions of officers taken. As a matter of fact, they took Mr. Brown's deposition on April 20 and postponed voluntarily the deposition of Mr. Potts, which was scheduled for April 24 and 25.

We on our part have received nothing from the Government except the answers to 14 questions which we propounded to them the day after we last met with Your Honor, which would be about six and a half weeks ago.

On April 13 we requested certain documents from the Government, and by letter of April 15 they stated that the request was under consideration and further response would be forthcoming, but to date we have had no further response and haven't seen anything.

The Court: What is the nature of the documents you are asking for?

Mr. von Starck: Substantially it was for all documents that they relied on in preparing their complaint, except the application.

Mr. Reycraft: I believe, Your Honor—and I want to confirm this, because another one of my associates, who is not here, has had this problem—I believe that they have all of the documents which we relied on in preparing our complaint. Now, I would like to have the opportunity to modify that, if necessary, and I will let you know [fol. 102] by Friday, but I think we have no studies of the type you are referring to which we haven't given to you.

Mr. von Starck: This is the first time we know that.

Mr. Littleton: We understood the request was under consideration and we would hear from them.

The Court: You are going to have them by the end of the week, so that settles that problem.

Mr. Littleton: Yesterday morning we received several letters from the Government. I don't think it is worthwhile reading here the principal letter from Judge Loevinger, but in the first paragraph he says:

> "The purpose of this letter is to inform you that the Government has not determined at this time the names of all of the persons who will be called as witnesses at the trial of the captioned case. It is our view that in the present posture of the litigation the furnishing of a partial list will serve little useful purpose.
>
> "We believe that before this occurs the following should be accomplished:
>
> "1. All of the documents requested by the defendant banks from the Federal Reserve Board and the State [fol. 103] banking agencies should be available to both parties."

Well, they are just as available to them as they are to us. We have written for them, and we would give them copies, but they have written for them. Now, since then——

Mr. Reycraft: May we take these up one by one, Your

Honor, because we don't have all the copies. I understood——

Mr. Littleton: Excuse me. The first thing, it seems to me, to take up is this question of furnishing us with the names. That is the first item.

Mr. Reycraft: Yes. Well, as a matter of fact, I think the discussion we had earlier about the New York survey is a good example why I can't give them a list of names at this time. Now, the fact is I have made, I would say, no final determination as to the witnesses we will call at the trial. It may be that there will only be a very few and that our presentation will be primarily statistical, but I can't even know at this stage what statistics are going to be going in without witnesses.

I might say one of the first things we did between us was to go over this very voluminous application which the banks filed with the Comptroller of the Currency and to try to glean from this application facts which both [fol. 104] sides could stipulate to. We sent a marked up copy of this application to both banks—I don't know the exact date—two weeks ago, and we understood that a draft stipulation based on these facts which the banks represented to the Comptroller was going to be prepared and that then we were going to discuss it and see whether we could stipulate to a large part of these facts. Now, I think we can; and we are willing and anxious to do this, but so far we haven't had any indication whether it is even still agreed that we are going to have a stipulation.

Mr. Littleton: I don't see how we can have a stipulation of facts which you have ripped out of the application, some of them out of context, and without putting in others that we want and that you are not willing to stipulate.

Mr. Reycraft: Well, we haven't had that discussion, Mr. Littleton. We haven't had that discussion, and I am anxious to have it.

Mr. Littleton: Five weeks from today we should be on trial. Six weeks and a half ago Your Honor made the order about the May 1 furnishing us with information, and long before that, back in November, the Department of Justice had the application and got a lot of additional information in December, so that it extended the 30-day [fol. 105] period within which it had to make its advice to the Comptroller of the Currency, and since that time

it has made a report to the Comptroller of the Currency about the whole application, and since that time it started the suit. So here on May 2 to say that it still doesn't know what witnesses it is going to rely on or what documents it is going to rely on is certainly not advancing the trial of this case, and at the last meeting, six and a half weeks ago, we all said that we were most anxious to expedite this case because of the serious import and implications of it.

Mr. Reycraft: Well, when are we going to sit down and talk about the stipulation based on your application?

Mr. Littleton: We can sit down and talk about that at any time, but, you know Mr. Reycraft, very well, that that is a very small matter compared with the things which we were supposed to have gotten from you yesterday.

Mr. Reycraft: Well, as far as my present knowledge of the witnesses we intend to call, you have it, because I don't know until we have these facts. I understand you do not have yourself all of these reports from the banking agencies that you have asked for. I don't have them. As a matter of fact, there are still documents in the banks which we have asked to examine, and I am informed that there are a substantial amount which relate to this specific [fol. 106] merger, documents which were prepared in connection with this merger, which we have not yet had an opportunity to examine. One of their preliminary reasons is because of this confidential question which was raised a minute ago, and I think this would be an appropriate time to discuss this request that Mr. Littleton and Mr. Price have made of us as to the use that the Attorney General can make of these documents.

Mr. von Starck: Before you do that let me point out that you were told last week that these documents were available for your inspection, and we were advised that your person wouldn't be up to inspect them till next week.

Mr. Reycraft: One of your people told my associate that in view of our position on the confidentiality, that the documents would not be available until a ruling of the Court had been made.

Mr. von Starck: I have no recollection of that.

Mr. Midgett: That is certainly not true for the Girard Trust. We have made available to you very promptly the documents you have requested, and on the 24th Mr. Wright told Mr. Flocken that those documents were available.

Mr. Wright: I have yet to hear from Mr. Flocken.

Mr. Midgett: We have not heard from Mr. Flocken at all.

Mr. Reycraft: We are prepared to examine them this [fol. 107] week.

Mr. Littleton: And Mr. Flocken told you, Mr. Blenko, he would be up on Thursday of this week.

Mr. Blenko: Saturday. When I first advised him as to the availability, we did not know about the Government's position on confidentiality.

Mr. Reycraft: That is correct.

Mr. von Starck: Aside from that, Mr. Reycraft, you told me last Wednesday you did know the names of some of your witnesses and that you would disclose those on Monday. Judge Loevinger's letter here implies very clearly that you do know some of the names but you don't think it would serve any purpose to disclose those names at this time.

Mr. Reycraft: Well, I will tell you, for what use it is to you, I will tell you the name of a professor whom we had consulted on the matter, whom I think it is likely that we will call as a witness, but as to whom I have not made a firm decision, and that is Professor Oscar Goodman of Northwestern University Business School.

Now, as to the others, I say quite frankly that I have not made a decision and that I do not know. There are several people that I think we may call, but I have not received their permission, and until I can get the basic information that we need, I don't see how I can really ask [fol. 108] them to testify.

Mr. Littleton: The second thing is Paragraph 1 in Judge Loevinger's letter. He says:

> "We believe that before this occurs the following should be accomplished:
>
> "1. All of the documents requested by the defendant banks from the Federal Reserve Board and the State banking agencies should be available to both parties."

My answer to that is, you have asked for them of the same State banking agencies. They are equally available to you as the are to us, but if you want us to make copies of them, we will do anything to expedite things.

Mr. Reycraft: No. We have made the request, and we are waiting for the agencies to give them to us.

Mr. Littleton: You could have made that request a long while ago, and it is no reason, it seems to me, to hold up the other things which were directed six and a half weeks ago to be given to us yesterday.

The second thing that Judge Loevinger says is:

> "2. Inspection and analysis of the documents requested of the defendant banks on April 7, 1961 should be completed. It is our understanding from discussions with Mr. von Starck that all of the documents are [fol. 109] now available at the respective banks."

They were told that last week. They were furnished with the documents, some of them before last week, and they have been available, and they are not going to see them until the latter part of this week.

Mr. Reycraft: Let us get to this confidentiality problem. Are they available to us now or are they not?

Mr. Littleton: I am going through these one by one. We will get to the confidentiality. That is the big thing, it seems to me.

> "3. Answers to the questions asked by the Government and mailed to you this date should be received and analyzed. In the interest of limiting the work to be performed by defendants in answering these questions, information as to loans has been limited to those above $10,000 and as to deposits above $2,500."

Now, if Your Honor please, that is a great deal in one small paragraph. Here is what we received yesterday with this letter (handing). Instead of receiving the information, we received 30 questions, which I say, without any doubt, practically means copying; turning over, or opening up for inspection all of the records of the Philadelphia National Bank and the Girard Trust Company.

Mr. Midgett: For five years.

[fol. 110] Mr. Littleton: No. 2 alone would take thousands of man hours to complete, if you will look at it.

The Court: I see it.

Mr. Littleton: We have available, for instance, for one certain date, being a call date, a recent call date, all the loans above $50,000 and all of the deposits above $10,000 for one date, and to assimilate that information and get it out took over 300 man-hours in both banks. Now they ask for it for five years; and, of course, it is a thing which changes day by day, so you can just multiply 300 man hours by five years of days and then add to it all of the loans and deposits less than $50,000 and $10,000 respectively, down to the figures which appear in Judge Loevinger's letter, the $10,000 of loans and $2,500 of deposits —just a completely impossible job.

Mr. Reycraft: Now, let me say, Your Honor, that we came up here at 8:30 this morning to discuss these matters, and we have spent some time this morning discussing this. As far as the second question is concerned, I think it is precisely the kind of information that Mr. Littleton has been arguing is relevant to develop the question of the source of the business that the Philadelphia National Bank and Girard Trust Company do, the geographic origin of it, and as a result of our conversations this morning we see their [fol. 111] problem to some degree, and we would be willing to limit the information as of any day which is most convenient to them during the years 1959 and 1960, but we think that this is the type of information——

The Court: What is the matter with the call date? They have it. You have it.

Mr. Reycraft: If they have it as of the call date, that would be satisfactory.

The Court: Let me see this.

> "State the name and address of each borrower, type of loan, amount of loan, the branch or home office from which each loan originated, and, in addition, state the number and dollar volume of each type of loan originating in (1) Philadelphia County, (2) the four county area (Philadelphia, Bucks, Delaware, and Montgomery), and (3) any other area, designating such area."

Mr. Reycraft: This is the essence of the case, Your Honor. This is the claim that the Philadelphia banks are really in nationwide competition rather than in competition within a local area here, as seems likely to us. This

is what the case is about, and this information is only in the banks' files. We don't have it. There is no way that we can, by going throughout the whole United States Government, get information of this type. Only the bank has it. [fol. 112] I think it really is as essential to the bank's case as it is to our own.

Mr. von Starck: We took all the loans over $50,000 and put all this information on them as of June, 1960, which is the application date, and we have those on IBM cards. We can give them every bit of information they want to know about loans over $50,000 to June, 1960, and that is what Mr. Littleton said took over 300 man hours to do. That we are perfectly willing to give them, any information they want on that.

Mr. Littleton: Except where we are going to claim the confidential relationship, because you will notice, Your Honor, they not only want to know the number and size of the loan, but they want the name and address of each borrower, the amount of his loan, the type of loan. They want the same thing for each depositor.

The Court: Gentlemen, we are running into our weekly judges' meeting, which happens at this point, so I am afraid I will have to ask you to come back. I would like to go through with this, but I see that we are not going to finish in the next ten minutes.

Mr. Littleton: We asked Mr. Reycraft to come up early this morning, and he and Mr. Reed very kindly came up, and we have been endeavoring to work out some of this, but the confidentiality question——

[fol. 113] The Court: I think I will have to ask you to come back, gentlemen, because this is an important meeting.

Mr. Littleton: Today or tomorrow, or when?

The Court: Come back this afternoon. I will be back here at 2:00 o'clock.

Mr. Reycraft: We will stay as long as it takes, Your Honor.

The Court: I will be back here at 2:00 o'clock, but I do want to attend that judges' meeting, because we have several important things to go over.

(Recess taken at 12:40 P.M. until 2:00 o'clock P.M.)

[fol. 114] AFTERNOON SESSION

The Court: We were down to No. 3 on this letter.

Mr. Littleton: Does Your Honor wish to go on through that letter, or might I say this: In an effort to pull things together, because Your Honor has been most generous with his time, I should say to you that after we got over our initial shock yesterday morning of not getting the things that we were directed to receive, and instead getting this list of interrogatories—again—we immediately got to work with our own clients to find out just what the time element involved would be, and, of course, they were impressed, not only with that—or depressed with it—but also with this question of confidentiality, too, in addition to that. We called Mr. Reycraft, and he very kindly agreed to get up here 9:00 o'clock this morning, which he did, in an effort to, so far as possible, find out what the Government's basic requests, what their minimum requests are, because I can't believe they are in earnest about all the things that they asked for here; and in an effort to be cooperative entirely, which has been our effort from the beginning, so much so, as I said, that we furnished them everything that they asked for up until yesterday morning, we endeavored this morning with Mr. Reycraft, before we came down here, to see just what the irreducible request is. [fol. 115] I can't say we were successful—the time was probably too short—and I don't know now what his ultimate position is on these things.

I wondered if Your Honor this afternoon would care to have us go over these questions propounded and get your rulings on them. I don't say that we have objections to all 30. There are many of them in there that we are perfectly willing and able to give the information. Some of them, entirely willing. There are others which, while we have the information, the question of confidentiality runs horizontally through this whole situation, but I wondered if Your Honor would want to proceed that way or whether you would rather have us continue our efforts with Mr. Reycraft outside, and then when we get down to a point where we can't agree, to come back to you.

The Court: Well, if you want to do that, it is all right with me, but at this point I would like to have you, Mr. Rey-

craft, put on the record your reasons for not complying with the order of the Court directing you to file the names of witnesses with your opponents on May 1.

Mr. Reycraft: Your Honor, the reason is that we have not made a final decision as to the witnesses we do intend to call. I have stated the name of one witness whom I am quite certain we will call, Professor Goodman. I think [fol. 116] it is possible that a large part of our case and perhaps the greatest part of the case could be put in without any witnesses at all.

The Court: What would you do if I ordered this down for hearing within five days on your preliminary injunction?

Mr. Reycraft: Your Honor, we would put into evidence in the preliminary injunction largely the information that is contained in the application of the banks to the Comptroller. This is the basic information which was available to us.

The Court: Now, 65 days later, you have made no determination except one witness?

Mr. Reycraft: Well, that is largely correct, sir.

The Court: It does not speak well for the case at this point, Mr. Reycraft.

You have until next Monday to furnish that list. I want that list furnished by next Monday. I don't want any misunderstanding about it.

Now, we never foreclose, for cause shown—and I didn't say good cause—for cause shown, the right to expand that list at any time within the limits of reasonableness, but I don't put out orders to have them ignored.

[fol. 117] Do we understand each other?

Mr. Reycraft: Yes, sir.

The Court: All right, now, we will go on. I suggest that you go out, see what you can do, then come back. I will be here all afternoon. If you want to go down and use my courtroom, you may do so. I will tell Mr. Davies to open up the courtroom down there, and you can go there. There are big tables there, and there is plenty of space. If you need any equipment, we will get it for you.

Mr. Littleton: Thank you very much, sir. We will try to expedite it.

(Recess taken at 2:10 P.M.)

[fol. 118] (The following took place at 3:45 P.M.)

Mr. Littleton: Judge, I think we have been making good use of our time, and we have agreed on restrictions on these questions propounded by the plaintiff as of yesterday morning to us, to a point where we will make our best effort to get the information so delimited as quickly as possible, and I have every expectation we will be able to get it prior to the critical date of June 5.

We are doing it under two overriding conditions, however, so far as we are concerned, one that if by any chance any part of it is not ready by that time, with making our best efforts, because it is probably trite to say that we are trying to prove a case of defense ourselves at the same time, that nothing of that nature shall interfere with the beginning of this case, the trial of this case, on the 5th of June; and the other overriding condition which is really important in this is the matter of confidentiality with regard to the first two documents which have already been furnished, and, second, with almost all of the categories of information requested in these new 30 questions propounded to us yesterday.

Now, if I may, I would like to ask Ernest von Starck to address himself to the confidentiality matter.

Mr. von Starck: As you can understand, Judge Clary, [fol. 119] a lot of questions we are asked relate to the identity of borrowers, the identity of depositors, the amounts of deposits, the amounts of borrowings, and we feel that the limitations stated in our letter of April 17 are the appropriate ones.

Do you have a copy of that letter, sir?

The Court: I did have, but I handed it back to somebody.

Mr. von Starck: It is our understanding that Mr. Reycraft will agree to No. 1 in that letter, but that he disagrees with No. 2, and as to that we cannot see any reason for disagreement, because that would merely involve impoundment under a cloak of secrecy on the day it was actually introduced in evidence, without limitation as to the right to introduce it in evidence.

Mr. Reycraft: Your Honor, our position on that is that at the time any document is offered into evidence, if there is good cause for treating it on a confidential basis, that that should be addressed to Your Honor at that time.

Our objection is to treating all of this information as confidential on a blanket form and their asking us that we won't resist any request they make to have documents impounded. We think it is in the public interest that documents, to the extent that it can be done, should be on the public record and available to the public. We don't wish to embarrass anybody. We don't wish to cause any com- [fol. 120] petitive injury to these banks, but we do think that each of these requests ought to be taken up at the time the document is going to be made public.

The Court: Up until that time are you in agreement that you will not make any disclosure?

Mr. Reycraft: Up until the time we offer them into evidence I would say we don't object to not making them public.

Now, I would say, Your Honor, that with respect to our problem with the New York banks, it may be when we go up there we may wish to discuss some of these matters with the banks, and I would just not like to give up all right to come back to Your Honor and raise problems.

The Court: There is no giving up of that right at any time. You can always come back to me at any time for any purpose.

Mr. Reycraft: We have no intention of disclosing them up till the time of the trial.

The Court: Isn't that all that you are asking at this point, Mr. von Starck?

Mr. von Stack: Well, sir, at the time of trial we have asked that they not resist any motion we might make for impoundment of information, and, of course, we would not be foolish about that. What we are talking about is the [fol. 121] identity of borrowers and the amount of the borrowings, and so forth. We would show cause.

The Court: They say that at this point they are not going to make them public till the time comes for trial. Now, at that time you make your request. Then is the time that I could pass on it. Many of them they probably won't care about. They may care about one or two or three, and then I will be in a position properly to appraise whether it might cause injury. I can't at this point. I can't say at this particular point that every possible disclosure will cause injury.

Mr. Reycraft: It will be within Your Honor's control at all times, so I don't see any problem.

The Court: Fundamentally, I say this to you, that I agree that business should be done with all possible safeguards, and I don't think the Government should helter-skelter just throw records to the wind. I will certainly keep them under control, but there may develop a situation where it is definitely in the public interest to have certain isolated situations disclosed of record. It might mean your case, it might mean the Government's case, I don't know, but I can't give you a blanket assurance at this time. I say that where it is at all possible, I certainly will respect the feeling of both the Government and the defendants here. I have no desire to explode the vaults [fol. 122] of information contained in either the Girard or the Philadelphia National.

Mr. von Starck: Well, No. 2 is drawn on the assumption that we would have to show cause to you.

The Court: Well, that is all right. Then that is perfectly all right. You have no objection to that, Mr. Reycraft?

Mr. Reycraft: No, sir. They are asking that we won't resist. They say, "... will not be resisted by the Department of Justice," and, of course, I can't agree to that, I may not, but I can't agree in advance to waive all rights of this kind.

Mr. von Starck: I don't understand why the Department of Justice should be anxious to spread any of this information on the record.

The Court: Neither do I at this point.

Mr. von Starck: Could we pass on to No. 3, which probably has more direct bearing?

The Court: Yes.

Mr. von Starck: And that is that the information contained in these documents will not be used by the Department of Justice in any other litigation or for any other purposes other than this litigation. Mr. Reycraft won't agree to what appears to us to be a perfectly reasonable [fol. 123] thing.

The Court: Suppose you tell me what you have in your mind.

Mr. von Starck: Well, we have in our mind this, that we are turning over to them voluntarily much of this informa-

tion which normally our clients definitely do not want disclosed. That information will be in the files of the Department of Justice, and what we don't want them to do is to take that information, spread it on the record publicly in some other litigation, or turn it over to Senator Kefauver or some other committee so that it becomes public knowledge in a way not related to this piece of litigation, and this piece of litigation is the only justification they have for getting this information in the first instance.

Mr. Reycraft: Well, now, Your Honor, we already have the understanding as to No. 1 that we will retain these documents. We don't have any intention of breaching any confidentiality, and when we do we will bring any such problems to Your Honor at trial, so I don't see that No. 3 is necessary. I think they already have the protection which Your Honor might want to give them.

Mr. von Starck: I think, Mr. Reycraft, you mentioned that this might be used in the Kentucky litigation.

Mr. Reycraft: Well, I have in mind that we may get some interrogatories from any source, and if we get in- [fol. 124] terrogatories we have to answer them if we know the answer. Now, I don't see any likelihood of this, but I can't agree at this time that I won't comply with another judge's order to disclose information.

Mr. von Starck: Well, I think if this Court were to order that this information is not to be disclosed either voluntarily or by order of another court, that confines it to this litigation.

Mr. Reycraft: I really think it raises a very serious question of restrictions placed upon the Attorney General and the use he may make of information in connection with the performance of his duty to enforce all of the laws that he has a duty to enforce. Now, I don't see any relevance to these documents to a tax problem, for example, or to any problem other than this particular litigation, but I think to place restrictions on the Attorney General in the performance of his duties is a rather serious step, and I think it raises real perhaps even separation of the branches of Government problems.

Mr. von Starck: As you can understand, Judge Clary, it raises real problems with our clients. They are tremendously concerned about this, because this is not the

ordinary situation of trade secrets, where you don't want information to get out for the benefit of your competitors. [fol. 125] Here there is the element of confidentiality between the bank and its customers, and this is a very real problem. Not only is it an ethical duty of the banker to retain this information, keep it to himself, but it is also a real business problem, too, because you can well understand, if your account were spread on the record in this litigation or in some other litigation, which would be even worse, you would resent it and probably remove your account from the bank, and that is what you are up against.

The Court: I appreciate that, but we are talking about power now, the power of the Court to place future restrictions upon the Department of Justice. That is a very serious question as to whether I have any power to do it.

Mr. von Starck: Well, you have the control of this litigation, sir.

The Court: I have the control of this litigation, no question about it, and as of this moment we have an agreement that up until the time that this information or any of the documents obtained are actually used in the trial of this case, they will not be publicly disclosed. We have that at this point. Do you understand that, Mr. Reycraft?

Mr. Reycraft: I understand that is Your Honor's instruction.

Mr. Littleton: Could we go a little further that the De- [fol. 126] partment won't make any disposition of them without it being brought to your attention and giving us an opportunity to present our application for a protective order?. I am thinking of the very question Mr. Reycraft mentioned, discussing it down below, if suddenly in the Kentucky litigation, that he mentions, something of this nature should be required, that he would have to come back to you to get your permission to disclose that.

The Court: I certainly would be most agreeable that they come back here and ask permission to disclose it, because I consider this agreement to be binding on the Government, that is made here today, and I consider it an agreement on the part of the Government that they will not disclose it until the time of trial, and certainly I will be very happy to open the bars, on cause shown, in this case or anywhere else.

Mr. Reycraft: Your Honor, just by way of amplification, the problem may arise in the sense that these banks, for example, wish to go into the bank situation in New York with respect to this case. I don't know whether the Lexington people will want to go so far as to argue that Philadelphia should be considered in the Lexington case. I wouldn't think it would be a very sound position, but I can't forsee all these things, and I just don't think that any limitation on the Attorney General's use within the [fol. 127] Department would be an appropriate thing.

The Court: I don't see where I have any authority to do it.

Mr. von Starck: Well, sir, you have said that the agreement covers nondisclosure of this information up until the time of trial.

The Court: Yes, it does. That is right.

Mr. von Starck: And I would assume that that obligation of nondisclosure would continue after the time of trial, except as to those items which have been introduced in evidence at the time of trial, and after there has been an opportunity to argue the question of confidentiality at that time.

Mr. Reycraft: Your Honor, let me say this: We feel in the Department—and I must say it goes well beyond this litigation—we feel that trials of matters of this degree of public importance should be public, certainly to the maximum extent possible; that in order for the Bar at large to understand these cases, they have to know the kind of information that the Court based its decision on; and I know there will be interest in this case and in the facts on which the Court bases a decision, and we don't think that it would be fair or appropriate, really, to keep facts confidential unless there is good cause shown [fol. 128] by the defendants.

The Court: I am merely saying that irreparable harm may come to an individual.

Mr. Reycraft: This is a matter which may be shown. They may be able to show this type of thing.

The Court: That irreparable harm may come to an individual by disclosure of names?

Mr. Reycraft: Yes.

The Court: If that is so, the Court should protect it.

Mr. Reycraft: Yes, sir.

The Court: So, therefore, I suggest to you that you keep these things as agreed, No. 1, completely confidential, and if you want to go beyond that, come back to me.

Mr. Reycraft: Yes, sir, I understand that up to the time of trial, that Your Honor's——

The Court: And even thereafter come back to me, because these are being given to you without any order. There is a lot of these here—I will tell you very frankly—that if objection were made, I would sustain it. Now, if they are giving them to you voluntarily, I think that you ought to make an agreement right here on the record that you will keep them within the Department and that if you intend to use them in other litigation you will come back here and [fol. 129] ask me to lift that agreement, and I will be very happy to consider it, and I will be very free in lifting it on cause shown. That would govern the whole deal both at trial and thereafter, because they are now giving you a lot of things they don't have to give you.

Mr. Reycraft: Now, at trial, Your Honor, it is a question, really, of who has to show good cause to keep it confidential.

The Court: I seems to me the burden would be on the defendants.

Mr. Reycraft: I understand Your Honor's instructions and I will abide by them.

Mr. von Starck: And then in addition to that, going back to No. 1, at the conclusion of the litigation these documents will be returned by the Department of Justice.

Mr. Reycraft: I don't have any objection to that, except to the extent that they have been introduced into evidence.

The Court: Yes. All right.

That seems to be as far as we can go, but I will say I understand the position of Mr. Reycraft and Mr. Reed here. They just can't make any agreement on behalf of the Attorney General to the extent that you ask it. They can agree, however, that they will safeguard it by giving you [fol. 130] a chance to move for a protective order.

Mr. Reycraft: Exactly right, your Honor.

The Court: Before they make any disclosure, before they bring it back to me, and it seems to me that that is a very sensible solution to a difficult situation, where we don't have to go through these 30 questions and cull out

item by item a situation that might involve postponing this case for years.

Mr. Littleton: Right. As long as they have to come back to you, that is satisfactory to us. What we prevented is having to go out to San Francisco, to some court out there, and ask for a protective order.

The Court: Oh, no, they are coming back here. We are talking about the documents, Mr. Reycraft, that they turn over to you in this case.

Mr. Reycraft: Yes, sir.

The Court: I am keeping control of the documents in this case, and if you want to use them anywhere else, come back to me. All that you have to do is let them show cause why they should be treated as confidential and why their reason is so overriding as against yours that it would cause irreparable damage, and you would have to show cause why it is in the public interest.

Mr. Reycraft: We understand that, sir.

[fol. 131] Mr. Littleton: And as I understand it, this covers not only the documents we have already furnished them, as to which this letter was written, but anything that we are now going to furnish them in accordance with the arrangements we have made.

The Court: We are talking about all the documents you turn over to them. This has been done entirely voluntarily, and I commend both sides for your frankness in turning these over. I have copies, as you all know, of the reports of the four agencies involved. You all have those. There has been no claim of privilege on those.

Now, is there anything else that the Department has that you think you should have at this point that there is any dispute about?

Mr. Littleton: We haven't yet received the documents that we requested, and they have the list of those.

Mr. Reycraft: You are talking about this list of studies, and so forth?

Mr. Littleton: That we asked for April 10.

Mr. Reycraft: I have said earlier—I think that this is true and I will check it—that I think you have what we have, but I will let you know by Friday for certain.

The Court: How much time did I give you after they [fol. 132] filed their list for you to file one?

Mr. Littleton: Our direction is for May 15.

The Court: That is two weeks later?

Mr. Littleton: Two weeks later.

The Court: That pushes you back to the 22nd.

Mr. Littleton: The 22nd.

The Court: All right.

Mr. Littleton: Now, this point of timing in our getting out the answers to these new 30 questions.

The Court: If you answered them fully, you couldn't answer them by Christmas, unless, you put a staff of about 50 people to work on it and worked the clock around.

Mr. Littleton: We are going to give them as much as we can within the time, but I say it with the condition that nothing holds up the trial of this case, because the case was instituted in February, and here it is the 2nd of May, and Mr. Midgett would like to address himself to something further that comes out of Judge Loevinger's letter in this situation.

Mr. Midgett: I call Your Honor's attention to paragraph beginning with No. 7 on page 2 of Judge Loevinger's letter —Mr. Kirkpatrick's letter—dated April 28, 1961, which we received yesterday, May 1.

Paragraph 7, Your Honor will note, indicates that the [fol. 133] Department of Justice has under consideration taking the depositions of a representative number of other financial institutions.

Paragraph 8 indicates that the Department still wishes to take Mr. Potts' deposition, which was scheduled for the 24th and 25th of April and postponed without a day fixed at the Department's request; and Paragraph 9 states the Department's intention of taking the depositions of other banks in Philadelphia.

I asked Mr. Reycraft if he could outline for us his deposition schedule, since we now have roughly five weeks until the trial time, and there are many other things that have to be done. Mr. Reycraft then gave Mr. Littleton and myself, at I guess a quarter of four this afternoon, a copy of a notice of deposition of eleven bank presidents of Philadelphia banks, which are all set down for 10:00 A.M. on May 12.

Mr. Reycraft: These are documentary depositions, Your Honor. They are limited to particular documents which we think can be produced within that time. We don't intend and I don't think it will be necessary to take oral

testimony from these people. It is for the purposes of getting their documents.

The Court: May their representatives come and present [fol. 134] them rather than the presidents?

Mr. Reycraft: Yes, sir, they may, surely.

Mr. Midgett: Do I understand, then, that there is no present intention of taking oral depositions of these eleven presidents?

Mr. Reycraft: That is right.

Mr. Midgett: It seems to us, sir, that Mr. Reycraft should be required to state now what his deposition schedule is, because if he has any intention of taking the depositions of representatives of other financial institutions or the deposition of Mr. Potts, I think that the time is now getting so short that we should have a firm statement of dates from him.

Mr. Reycraft: Your Honor, I would say that within a week after these questions are answered which relate to the institutions which the defendants claim are competitors, that I can give him an answer, but I have to know who they claim are the competitors before I can do this.

Mr. Midgett: I think Your Honor may wish to take into account the difficulties we are going to have so far as time in answering these interrogatories. We are in this bind because Mr. Reycraft served yesterday these 30 comprehensive questions. Your Honor fixed the trial date at the time of our last conference, which, as I recall, was [fol. 135] March 16, and immediately following that hearing we submitted our questions to the Government, and it took the Government over a month to answer them, and we just had a simple 14 questions, nothing as comprehensive as this. Now I think if Mr. Reycraft has got himself into this situation by his delay in filing his questions, that we should not be required to put aside the week immediately preceding trial while he patches up the problems he has got himself into.

Mr. Reycraft: Your Honor, I would like to observe at this point that this is I think an extremely important case for all parties to it, and it seems to me that to try to resolve these issues without the facts which I think we all agree are necessary would be very unfortunate. I think we ought to have a record which is complete, and I think we are entitled to have that. We have agreed from the

outset to bypass the normal Federal rules, which would have taken, I think quite a long time to have the full discovery route which usually occurs in antitrust cases, and I must say I am getting a little bit tired of hearing the suggestions that we are delaying this matter, because we have been, I think, from our point of view, doing our share of the work.

Now, most of the information, by its very nature, is in the control of the banks. It is in the hands of the banks. When they say they are in competition with New York [fol. 136] banks, this kind of information comes from their files—we don't have it in our files—and the only place we have to get it is from their files.

The Court: I know, but you have alleged that they aren't.

Mr. Reycraft: We have alleged that competition will be eliminated in this area, and they are bringing in the problem of competition from the New York banks.

The Court: These reports and even the letter of your chief say that New York is insignificant.

Mr. Reycraft: That is the way it appears to us.

Mr. Midgett: To round out my remarks on the subject, sir, I think that we must tailor the preparation of the case, we must take into account in the preparation of the case, the time within which we have all agreed to prepare it and the fact that we have not yet received and will not receive, under the present schedule—next Monday, I think Your Honor fixed—the list of witnesses which the Government proposes to call in its case in chief, and at that time that will be the first opportunity we will have to notice the depositions of persons whom the Government identifies; and I think it would be appropriate for Your Honor to limit the time, either by days or hours, which each side may devote to deposition activity and allow each side to [fol. 137] spend that deposition activity as that side thinks fit.

Mr. Reycraft: Well, I think it would be very unfair to limit this case to a fixed date to tailor whatever we are able to do, having to make these decisions without even having the answers to these questions, without having all the reports.

The Court: The questions were asked yesterday. These questions could have been asked on March 20.

Mr. Reycraft: I think not, Your Honor. We asked for documents first. We examined the documents. Our purpose in doing this was to find out the form in which the statistical information might be available from the banks. We took Mr. Brown's deposition for this purpose, and I think in a case of this importance we should not be circumscribed in the manner in which Mr. Midgett apparently wants to do.

Mr. Midgett: May I suggest, sir, that the request to examine documents was not received by us until April 10, which was almost a month following the conference we had before Your Honor, and that there has been no delay on our part in responding. We started to make documents available within three days after the receipt of that request, which is a remarkable performance, I think, with all due humility; and with respect to Mr. Brown's deposition, they have known since November of 1960 that Mr. [fol. 138] Brown was the president of the Girard Trust Corn Exchange Bank and did not see fit to notice his deposition before mid-April.

The Court: I don't think that your entire premise is sound, Mr. Midgett. I do think, however, that we do have to make some definite decisions here.

You have set a deposition for the 12th, Mr. Reycraft. Why the 12th?

Mr. Reycraft: Well, Your Honor, if these banks could produce the documents this Friday, I will be quite happy about it.

The Court: They are going to produce them as fast as they possibly can, and they are not going to wait until they get them all before they give them to you.

Mr. Reycraft: These are not defendant banks. These are third-party banks in the Philadelphia area. We are seeking their statistical information in order that we can show to Your Honor a breakdown by banks.

Mr. von Starck: There is the notice we just received 15 minutes ago (handing to the Court).

The Court: These are all presently extant documents, aren't they?

Mr. Reycraft: Yes, sir.

The Court: When are you going to serve them? Has the Marshal had them for service?

[fol. 139] Mr. Reycraft: No, sir. I had to serve copies on the defendants before I could get the subpoenas issued. The service of subpoena is tomorrow.

The Court: All right. Now you are going to take those, and what are you going to determine then?

Mr. Reycraft: As I say, these depositions are to get statistical material. They are not oral. It is not contemplated we will take oral depositions.

The Court: Then a vice-president or managing director of the statistical department of a bank may appear instead of the president and present you, as you ask for them, with each of these?

Mr. Reycraft: Yes, sir.

The Court: All right. Now that is settled. We are up to May 12. We have 24 days left. What do we do in that 24 days?

Mr. Reycraft: I would hope prior to that time that we can find out from Mr. Littleton when we are going to New York to conduct this interview session that he has in mind.

Mr. von Starck: With regard to that, if I may address myself to it, we are going to have to do a lot of missionary work with these banks over there, because they are not going to just willingly open their records to the Attorney [fol. 140] General, when they don't know the nature of the investigation, so that I think the first thing to be done is for you to let us know so that we can in turn let the banks know just what you are going to ask them, because they may refuse.

Mr. Reycraft: I think this is completely unworkable. You are asking us to tell you in advance what a witness is going to tell us. We don't know what their answers are going to be, and I think also, Your Honor, that in fairness we ought to approach these banks together, that we ought to be talking to them at the same time. We ought to know what each other are getting from these banks. I think this is the fair way of proceeding.

The Court: Well, that would be what you would do, because the man that is going to make the inquiry for the purposes of the case is not the man that is going to talk to him now to see how far they will go, so you are getting no

information at all now. It seems to me that arrangements do have to be made.

Mr. Reycraft: Yes.

Mr. von Starck: Absolutely. These banks are going to be pretty distressed when they hear about the fact that the Attorney General's office is going to come over there and ask them all sorts of questions and they don't know what the questions are going to be. They have under-[fol. 141] taken this voluntarily, and I am very much afraid that the voluntary aspect of this is going to be lost, particularly in the light of some of the questions Mr. Reed was proposing here, the identity of customers, and that type of thing. I think we may find that your position here has destroyed the whole value of this.

The Court: I, however, have no authority over New York banks.

Mr. von Starck: I think if we are going to get this type of statistical evidence which is vital to the case, we may have to do it in some other way, because I think you have effectively put a monkey wrench into this thing to the point where the wheels just aren't going to turn.

The Court: Well, now, what would you contemplate you are going to do between now and the trial date?

Mr. Reycraft: Your Honor, I would like to first look at the answers to the interrogatories, and Mr. Littleton has suggested that if he can't answer them before the trial, then he is not going to answer them, and I think it is not a fair situation and it is not a situation that is going to permit us to put our case on. I think we need these anwsers.

Mr. Littleton: I don't think I said we were not going to [fol. 142] answer them. I think I said we would answer them as rapidly as possible, that we expected to be able to do it before the date of trial, but the condition that we are asking here of the Court and insisting on the Government is that if any of the information isn't available to you by the time of trial, it shall not nevertheless have the effect of holding up the beginning of the trial.

Mr. Reycraft: Well, you may recall that when I was here last time, when we were all here last time, it seemed to me that July was a more realistic date. Now, I did not

ask or agree to the June date, and I still think it may be unrealistic.

Mr. von Starck: It is not unrealistic from our point of view. We are prepared to go on. We will be prepared. You are the one who instituted this suit, and you did it after having studied the application for months. You had your complaint prepared, and if the Government wasn't prepared to support its complaint at that time, it shouldn't have filed it.

Mr. Reycraft: Well, the purpose of the Federal Rules is to develop evidence in the form admissible at trial.

Mr. Littleton: On page 15 of the transcript of the hearing, the conference with the judge before, you say, "June 5 is all right. We will meet that day."

Mr. Reycraft: We will do our best.

The Court: Well, gentleman, I can fix a date next June, [fol. 143] a year from now, you know.

Mt. Littleton: Your Honor should know this: Next Tuesday there is a special meeting of the shareholders of the Philadelphia National Bank. I think the Girard's is the same day.

Mr. Midgett: I believe so.

Mr. Littleton: To pass on this merger agreement, and I don't know whether a shareholder that votes next Tuesday might want to change his mind if the case didn't get tried till a year from next June.

The Court: Gentlemen, there are pressures in this and I fully recognize them. I recognize that this is a case of very great importance to the Government and to the banks involved and the banking industry as a whole throughout the country. We have one problem here—two banks—nothing else as far as we are concerned here. The effect on competition, the objections made, and so forth. That is what we are trying here. Is that right?

Mr. Reycraft: Yes, sir.

The Court: Nothing else. That it will have its effect, we know, but we have got to try this case. It seems to me that the Government should be ready, two and a half months after we have our initial meeting, to proceed. That you would like to do a lot of things and do it leisurely is beside the point. There are a lot of issues at stake here [fol. 144] You started the suit. Our first session was held

perhaps three weeks later. This is a suit for an injunction. An injunction presupposes celerity of disposition.

Now, this isn't what I consider a full-fledged antitrust case in the sense that people have been doing a lot of things to which you object. That would take years and years of perhaps exploratory investigation to determine. What you are saying here is that something will result from what somebody proposes to do in the future, which is an entirely different situation. You don't have to go back for things which they have done. You are saying that this merger will do certain things, so we are prospecting in the future as to the vices that this situation will, according to the Government, create. I do not consider it a real full-fledged antitrust case in that sense, so I see no reason why you need all the time that an ordinary antitrust case would take. It seems to me that if you weren't ready to proceed when you started your case, certainly 90 days is enough to produce enough evidence to satisfy the Court that an injunction should issue.

Now, I stated that deliberately of record, because that is my feeling, so I expect you to start on the 5th of June in accordance with the previous plans. I suggest to you that you finish your depositions, whatever they are, one week in advance of the trial date, that no depositions [fol. 145] be taken during the following week except by agreement, and if either side considers it vital that a certain deposition or depositions be taken, just two of you come on down here and I will settle it fast. The door is always open here, and I am always around. You can always find me. You wouldn't find me tomorrow, because tomorrow happens to be one day I am not coming, but any other day you can find me.

Mr. Midgett: Has Your Honor taken into account the fact that it will be only on the 22nd that the defendants will——

Excuse me, sir. What was that schedule? I was thinking about when the plaintiff would supply their list to us.

The Court: They are supplying it next Monday, and you are supplying it on the 22nd, but your supplying it on the 22nd might necessitate a deposition the week before trial.

Mr. Midgett: I understand, sir.

Mr. Reycraft: Your Honor, may we have all of their answers a week before trial as well? I think this is a reasonable request.

The Court: Yes, to the extent that it is possible for them to answer, you will have it the week before trial or before that. I assume, from what was said here, that as fast [fol. 146] as they can get them, even though it is piecemeal, they are going to supply them to you.

Mr. Littleton: Exactly, sir.

Mr. Reycraft: That is my assumption also, Your Honor.

The Court: I just wanted to make sure of that, so that you may have substantially all the answers within a relatively few days.

Mr. Littleton: May I ask at this point, have we all the questions we are going to get?

The Court: Oh, questions are out from here in. No more questions may be asked. Any further interrogatories or discovery other than contemplated as of now is out for the trial of this case except by special permission. That is the end of any interrogatories either way.

Mr. Littleton: When we have put in memorandum form the agreement which we reached downstairs, and our comment as to the restrictive nature of these 30 questions that now appear, the answers to be made to them, would Your Honor like to have a copy of that memorandum?

The Court: I would like to see a copy of it, yes, and I would like to be able to keep this copy (indicating) if I may.

Mr. Littleton: You may.

[fols. 147-549] The Court: And the letter.

Mr. Littleton: And Judge Loevinger's letter of the 28th.

The Court: I would like to keep these copies. I have the copy which we discussed and the letter of the 17th, and I would like to keep this also so that I hav it available in the event there is any further question about it.

Mr. Littleton: Thank you.

The Court: May I say, gentlemen, if there is any impasse that results, get on the phone and I will try to set a time on any given day to meet with you. I will break up the trial or argument, or whatever I happen to be on, and I will sit down with you. I think this is important enough to do that.

Mr. Littleton: Thank you very much.

The Court: The door is always open. Never forget that.

(Adjourned at 4:30 P.M.)

[fol. 550] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

Transcript of Trial

Philadelphia, Pa., June 5, 1961

Before Hon. Thomas J. Clary, J.

PRESENT:

George D. Reycraft, Esq., John O'Donnell, Esq., P. Jay Flocken, Esq., and Charles A. Degnan, Esq., Trial Attorneys, Antitrust Division, Department of Justice, Washington, D. C., for the Government.

James A. Reed, Esq., Special Assistant to the Attorney General, for the Government.

Morgan, Lewis and Bockius, by Arthur Littleton, Esq., Ernest R. von Starck, Esq., Donald A. Scott, Esq., Don B. Blenko, Esq., Thomas A. Masterson, Esq., and Martin P. Snyder, Esq., for the Philadelphia National Bank.

[fol. 551] Barnes, Dechert, Price, Myers and Rhoads, by Philip Price, Esq., Carroll R. Wetzel, Esq., Minturn T. Wright, III, Esq., and John J. Brennan, Esq., for Girard Trust Corn Exchange Bank.

[fol. 552] The Court: I call the case of The United States, versus the Philadelphia National Bank and Girard Trust Corn Exchange Bank. Mr. Reycraft.

Reycraft: If Your Honor pleases, the Government is prepared to make a preliminary statement.

The Court: I will be happy to hear it.

OPENING STATEMENT ON BEHALF OF GOVERNMENT

Mr. Reycraft: This is an application by the United States for an injunction to bar the Philadelphia National Bank and the Girard Trust Corn Exchange Bank from carrying out an agreement of consolidation approved by the Board of Directors of the two banks on December 20, 1960. The

United States also seeks an injunction against any similar plan or agreement the effect of which would be to merge or consolidate the defendant banks.

The complaint filed with this Court by the United States charges that the contract and agreement between the two banks violates Section 1 of the Sherman Act and Section 7 of the Clayton Act, or the Celler-Kefauver Act.

Section 1 of the Sherman Act makes unlawful every contract or combination in restraint of trade or commerce among the several states.

The Clayton Act provides that no corporation engaged in commerce shall acquire, directly or indirectly, the whole or [fol. 553] any part of the stock or other share capital of another corporation engaged also in commerce where in any line of commerce in any section of the country, the effect of such acquisition may be substantially to lessen competition or to tend to create a monopoly.

We believe the evidence we are about to present will show that the contract between the two banks if carried out will result in a combination which unreasonably restrains trade between two of the largest commercial banks in Philadelphia.

We believe the evidence will also show that the proposed consolidation will substantially lessen competition in commercial banking in the Philadelphia area by eliminating all competition between the defendant banks and by contributing to a merger trend among commercial banks in Philadelphia. This trend has seen the number of commercial banks with head offices in Philadelphia reduced from 39 in 1947 to 17 in 1960. Of these 17 the fifth largest after this combination would be less than one-sixth the size of the combined bank.

One of the principal issues before this Court will be the question of the relevant geographic area within which to measure the impact of this elimination of competition.

[fol. 554] The first consideration which affects the ability of a Philadelphia bank to compete in any geographic area is the law of this State. As Your Honor knows a bank with headquarters in Philadelphia by State law can have branches only in Philadelphia and the three contiguous counties—Bucks, Montgomery and Delaware Counties.

This does not end the economic inquiry for the Court. If a merger in this area affected competition on a national

or international scale it would be appropriate to go beyond the area in which the places of business of these enterprises are located and measure the impact on competition in the broader area. But if the combination unreasonably restrains trade or has a tendency to monoply in one section of the United States it is unnecessary to inquire as to its effects in other cities or other states.

There is no need for conjecture as to where the business done by these banks originates. The facts will be established fully by statistics which we have developed from the records of the banks themselves.

They will show that the greater part of the business of these banks originates in the 4-county area and that it is in this area—Philadelphia, Bucks, Delaware and Montgomery Counties—that the competitive squeeze will result. They will show that it is the small and medium size business borrower who will be deprived of a competi- [fol. 555] tive alternative. These concerns just do not have the alternatives available to the great corporations.

If they are deprived of an alternative in the area where they are known, they cannot go to New York or Chicago to satisfy their banking needs. They must turn to the remaining commercial banks in this area.

This leads us to the suggestion which has been made that this merger will be good for other banks in Philadelphia because some borrowers won't like it and will take their business to those banks. It may be that fewer banks to share the business might lead to a more comfortable existence for the bankers. But it shows no promise of maintaining a healthy state of banking competition for Philadelphia or of preserving for borrowers in this area the alternatives which now exist.

If this merger were allowed, the line-up of the five largest banks would be as follows:

The Philadelphia-Girard would be first.
Then the First Pennsylvania.
The Provident Tradesmens.
The Fidelity-Philadelphia.
The Central Penn.

With respect to deposits it would mean that the Philadel- [fol. 556] phia-Girard would have 62 per cent more de-

posits than the second bank, which is the First Pennsylvania. It would have 262 per cent more than the third bank, the Provident, and 284 per cent more than the No. 4 bank, Fidelity, and it would have 585 per cent more than the fifth largest bank, Central Penn.

Similarly with respect to loans, the combined bank would have 45 per cent more loans than the First Pennsylvania, 239 per cent more than Provident, 277 per cent more than Fidelity, and 477 per cent more than Central Penn; and one of the objectives of this merger is to widen this gap even further.

Also with respect to branch offices, the combined bank would have 68 per cent more offices than the First Pennsylvania, 137 per cent more than Fidelity, 220 per cent more than Provident, and 256 per cent more than Central Penn.

Even more drastic is the fact that if the merger were allowed, the combined bank and the second largest bank, First Pennsylvania, would have 64.5 per cent of the total assets in Philadelphia of commercial banks; and if the third and fourth banks were added to these two, the three banks would then have 85.4 per cent of the commercial bank assets in Philadelphia.

[fol. 557] If the antitrust laws are not sufficient to deal with a consolidation of this magnitude there appears to be no barrier to further consolidations which could reduce to two or three the number of commercial banks in Philadelphia.

Just as this case transcends in importance for Philadelphia, the immediate problem before the Court of this proposed consolidation in the effects it will have on the future of banking in Philadelphia, it may also be a turning point in the future of banking throughout the United States. If this proposed consolidation does not violate the antitrust laws of the United States there would be few that could.

Some countries in the world have chosen to place their reliance on a highly centralized banking system which controls all bank credit in the economy. In a banking system of this type the alternatives available to a small businessman are few. If he is unable to get the credit he

needs from the few available banks, he has no alternative source.

In the United States we have chosen a banking system which provides for substantial alternatives for those seeking credit. We have not only a system of multiple national banks but a dual system of banking which require commercial banks to compete for available business. These [fol. 558] alternatives mean that a businessman who is not favored with a loan from one bank can go somewhere else. It means an aggressive banking system where banks are seeking to help new business grow and do not limit loans to already established enterprise. It means that the businessman with a new idea or a business which competes with a borrower from one bank has other places to go for a loan. By encouraging new business to grow, our competitive commercial banking system has contributed to the growth of our competitive free enterprise system. And our commercial banking system is the only available source of business credit for most small and medium size business enterprises.

Now, the areas of competition among commercial banks are substantial. They compete in the interest rates they charge commercial, industrial, and individual borrowers. They compete for the deposits of individuals, partnerships, and corporations, as well as for the deposits of other banks, other financial institutions, and governmental bodies.

They compete in the quality of the services they offer, and quality of service does not always follow the large size bank.

[fol. 559] Most important, they compete in making credit available to individuals and to small and medium size business enterprises. For the small and medium size business enterprise, and for the individual at reasonable rates, the only practical source of credit is the commercial bank.

It is probably true that one of the safest loans a bank can make is to the giant corporations in this country. Loans of this type are easy to service and sure of repayment. Our evidence will show that large banks favor this type of loan. But large corporations raise money for their business by many means not available to small and medium size business. They sell securities through public offerings and borrow from insurance companies, among other

sources. These same sources are not available generally to small and medium size business or individuals. The large corporation can also go to a distant bank to get a loan. Small and medium size businesses and individuals must borrow where they are known and that means in the city of their home or place of business. These are the borrowers who must be this Court's principal concern.

To meet the needs of these borrowers how much credit is now available from the two banks?

The Philadelphia National Bank now has a loan limit of $8,000,000 to a single borrower and has over $500,000,000 [fol. 560] of loans outstanding. The Girard has a loan limit of $6,000,000 to a single borrower and has over $400,000,000 of loans outstanding.

We believe that the evidence will show that these limits have been sufficient to take care of the needs of all but the largest corporations. The evidence will also show that when larger loans were desired by these corporations they were easily arranged with correspondent banks.

It seems to me that a fair reading of the application which these banks submitted indicates a belief that the greatest benefit which will result from this consolidation is a higher loan limit. The consolidation will not result in any increase in the total loans which the two banks can now make separately which could not be realized without this consolidation.

If a higher loan limit is what is desired, the Philadelphia National Bank, for example, could now raise its loan limit by selling stock, retaining earnings, or transferring capital from undivided profits; and the Girard could follow the same course. In fact, in 1951 the Girard did raise its loan limit 10 per cent by selling additional stock. [ ].

Any of these methods of increasing loan limits would result in greater availability of loan funds for the Phila- [fol. 561] delphia area if higher loan limits do attract more deposits. But instead of following this course the merger course was chosen. The benefit that results is that the rare corporation which has borrowed 8 million dollars from the Philadelphia National Bank and then stepped across the street to borrow 6 million dollars from Girard would be saved a little trouble.

But for the borrower who needs less than 6 million dol-

lars there is no benefit. And borrowers whose credit needs are 6 million dollars or less include nearly all business enterprises in Philadelphia and all individuals in Philadelphia.

What is offered in return to these individuals and businesses? The banks have announced that they are going to raise many of their service charges.

They have announced that they are going to close one branch which is next door to another of the combined banks.

And a refusal of credit at any one of the 65 banking offices of the two banks will mean that credit is not available to that borrower from any of the 65 offices.

But assume for the moment that a combination of the two banks will mean that more large corporations will borrow [fol. 562] more money from these banks. Assume that the company located in Ohio which has been borrowing in New York will now borrow 15 million dollars from the combined banks.

What does this mean for Philadelphia?

It means that very probably money which has been deposited by citizens of Philadelphia in the banks in their city is going to be sent out to Ohio to build a plant, pay wages, or to be loaned to a resident of Ohio to buy an automobile.

Is this going to help Philadelphia grow or contribute to an expansion of Delaware Valley? We think it will have the opposite effect. When a large corporation outside this area obtains a 15 million dollar loan from the combined bank it means that there is 15 million dollars less of available credit that can be reinvested in the Philadelphia area.

It may mean that 15 loans of 1 million dollars each which could be made to growing businesses in the Philadelphia area won't be made.

But suppose it is in the interest of Philadelphia to have a bigger bank that would make more loans to companies outside this area, how big does this bank have to be? The application says that the Philadelphia National Bank and [fol. 563] Girard want to compete with the New York banks. The biggest bank in New York has a loan limit of $65,000,000. If all the banks in Philadelphia merge the combined loan limit would be less than the loan limit of this one New York bank. And I think it's worth noting

that there are several proposed mergers among the New York banks which would, if approved, increase some loan limits above their present levels and provide an excuse for more consolidations.

Another issue before the Court is the question of the line of commerce affected by the consolidation.

We think there is no doubt that commercial banking is a unique form of business enterprise.

No other business enterprise may accept demand deposits under the law of this country.

No other business enterprise is able to create credit in the form in which it is done by the commercial banking system.

No other financial institution offers checking account services.

The stock in trade of a commercial bank is holding demand deposits and making commercial and industrial loans. [fol. 564] There are other institutions such as savings and loan associations which sell shares and use the money to make mortgage loans. But they don't hold demand deposits and they don't make commercial, industrial or individual loans.

Savings banks also accept time deposits but they do not offer checking account services. They can only make loans on a secured basis. They are therefore unable to serve the banking requirements of commercial or industrial customers or of individuals.

Personal finance companies offer even fewer services available from commercial banks.

Insurance companies are also unable to offer banking services to commercial or to industrial companies or to individuals.

For commercial and industrial companies and for individuals there is only one type of financial institution which offers all of these services and that is the commercial bank.

It is therefore no answer to the elimination of competition which will result here to say that it makes no difference because there are savings and loan associations or savings banks or personal finance companies or insurance companies. None of these institutions can give commer- [fol. 565] cial and industrial companies and individuals the banking services they require.

If these banks are permitted to carry out the merger proposed the largest bank in Philadelphia will have 39.3 percent of the commercial bank assets in Philadelphia.

The two largest banks will have 64.5 per cent of the commercial bank assets in Philadelphia.

And the four largest banks will have 85.4 per cent of all commercial bank assets in Philadelphia.

We submit that concentration in banking has gone far enough in Philadelphia and that no asserted advantage to a few large corporate borrowers can outweigh the adverse effects of the elimination of competition between these banks on all the people and businesses of Philadelphia. The combination would unreasonably restrain trade and would have a pronounced tendency to monopoly in commercial banking in the Philadelphia area.

[fol. 566] The Court: Mr. Littleton?

Opening Statement on Behalf of the Philadelphia National Bank

Mr. Littleton: If Your Honor please, it is not our intention in my opening statement to answer all of the many averments of fact that Mr. Reycraft has set forth here to Your Honor. We will let the evidence do that, but I think I would be doing less than my duty if I did not point out the anomaly of this entire case.

Mr. Reycraft's opening remark was that this was an action by the United States to restrain these banks from merging. This is an action by the Antitrust Division of the Department of Justice to restrain these banks from merging. The United States, in the person of the officer duly constituted and authorized to take care of such matters, has already approved this merger and found it to be in the public interest last February.

The Comptroller of the Currency under the amendment to the FDIC Act is vested with the sole authority to determine whether a merger such as this is in the public interest. He has considered the factors which are described in that Act as being the ones which he should consider, included among which are a tendency to create a monopoly or to restrain competition unreasonably, and he has found from his over-all consideration not that these banks are conspirators getting ready to violate the Sherman Act, not that they

[fol. 567] should be restrained under the Clayton Act; but he found that this merger is in the public interest and in the best interest for Philadelphia.

That is the reason we are coming before Your Honor to oppose this attempt to restrain this merger, because this merger is in the best interests of Philadelphia.

Philadelphia at the present time is the fourth largest city. It is twentieth, so far as standing of its largest bank, and the largest bank is not one of the two which are before Your Honor this morning.

The City of Boston, the City of Pittsburgh, the City of Cleveland, the City of Detroit, the City of San Francisco all have larger banks to take care of the business of those areas.

Your Honor knows only too well how, since the Second World War, the business and industry and population of Philadelphia and the Philadelphia area have grown and increased, and there is no bank anywhere near commensurate in size, in ability, in assets, in standing, in status to take care of the business of the metropolitan area of Philadelphia and the service area of these banks and of what I hope will be the merged bank.

In spite of what Mr. Reycraft indicates, we all know that there are quantities of Philadelphia business, deposits, [fol. 568] moving right out of Philadelphia, and not alone to New York but to Pittsburgh and Boston and the other cities which I have mentioned. We are here in the public interest to defend this merger against the attack not by the United States, which has approved it, but by the Antitrust Division of the Department of Justice.

The Court: Mr. Price?

Opening Statement on Behalf of Girard Trust Corn Exchange Bank

Mr. Price: May I say a word in addition to what Mr. Littleton has stated just now along the line that was suggested by the Justice Department and which he did not refer to directly? That is the Clayton Act. The Clayton Act has no application whatsoever. The Clayton Act does not, by its terms, apply to the acquisition of assets of one company by another; and that is what the Supreme Court of the United States has held this type of merger to be.

The Clayton Act, Section VII, applies to stock acquisitions, but not to asset acquisitions of the nature that this has been held to be and, therefore, the Clayton Act is not in the case.

As far as the Sherman Act is concerned, Your Honor will have two questions to decide—one, whether it applies at all, whether the Comptroller has not been given the exclusive authority to determine the purely business question of whether or not a merger such as this is in the public [fol. 569] interest in all aspects; or whether courts will have to struggle with the economic merits or demerits of a merger such as this in one of the highly technical fields such as banking.

In substance, what the Antitrust Division is proposing to do here is to preserve for New York a monopoly which it has acquired, if monopoly is the proper term, by virtue of the increasing size of the banks there which have grown commensurately with the increase in size of the demands of business.

New York, of course, is the money center of the United States and it is natural that there should be many banks there, but, as Mr. Reycraft pointed out, there is one bank in New York with a $65,000,000 lending limit and there are two others which have lending limits in excess of the combined lending limits of all the banks in Philadelphia. There is another bank in the West that has a like large lending limit and there are still more banks that have lending limits in excess of those of the aggregate of these banks which have limits in excess of $1,000,000.

So, what the Antitrust Division is seeking to do here is to shove the Philadelphia banking system into what it has described as the small-business category, let Philadelphia take care only of small-business needs and let New York, [fol. 570] with its much larger banks, take care of these larger business needs of larger companies.

Now, if there were no large companies in Philadelphia or the Philadelphia area, there might be some justification for that approach, but that is not the case and the result of the inadequacy of the Philadelphia banks has been that a large loan can't be handled here; that large amounts of business have gone elsewhere. There is great solicitation of business from outside of Philadelphia and that can be met only by meeting the results of the situation by having

banks in Philadelphia that are large enough to handle the vastly increased business of the large type as well as the continuing business of the smaller type.

Now, Your Honor will have to decide or may decide if you conclude that the Sherman Act has any application to this situation at all. Your Honor will be faced with the question of whether or not there is an unreasonable restraint of any character, and that would lead Your Honor to have to consider whether there is not ample facility provided by the other banks and by the merged bank, too, to meet all the demands of the small businessman for whom Mr. Keycraft now expresses concern; whether or not this merger takes place, and we will undertake to show you that there will be no impediment upon the borrowing capacity of the small businessman, that his needs will be [fol. 571] adequately taken care of; and that there will be no reason to suppose that there is any unreasonable restraint as a result of this merger.

In that connection I will say one word more, and that is that the terms "monopoly," "restraint," and so on, which are customarily applied in the cases involving manufacturing companies and selling companies may not be used indiscriminately in the case of banking. The availability of credit is not something that can be controlled merely by size, and I will ask Your Honor to bear in mind that as the evidence in this case goes in no matter how large a bank may be, unlike a manufacturer, it can not control the market or gather in all the other business that there may be from smaller banks simply because those banks are smaller than the larger one.

The history in this country has shown that large banks and small banks have existed alongside of each other for years and, therefore, the mere fact of size does not suggest monopoly as might be the case with a manufacturing company of a very large size or a selling company with a very large size; and similarly restraint which such size could effect in the field of industry generally does not apply in the field of banking.

The Court: Gentlemen, I think we had better set up our [fol. 572] time schedule.

We will run, as usual, from 10 to 12:30 and from 2 to 4 each afternoon. We will have a ten-minute break in the

middle of every session, as has been my custom, so you can make your plans according to that.

Call your first witness, Mr. Reycraft.

Mr. Reycraft: The Government calls Dr. John Dean Gaffey.

GOVERNMENT'S EVIDENCE

JOHN DEAN GAFFEY, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Reycraft:

Q. Will you state your full name, Dr. Gaffey, or you have done so?

A. Yes, sir.

Q. Dr. Gaffey, what is your present employment?

A. I am an economist for the Department of Justice.

Q. How long have you been with the Department of Justice?

A. Since 1948.

Q. Has all of your experience been with the Antitrust [fol. 573] Division in the Department of Justice?

A. All my experience in the Justice Department has been with the Antitrust Division, yes.

Q. What is your academic background, Dr. Gaffey?

A. I went to Ohio State University, received a bachelor of arts degree, with a major in economics, *summa cum laude*, and with honors in economics in 1935. I received an M. A. in economics from Ohio State.

I was a Fellow of the Social Science Research Council from 1935 to 1938. During part of that time I attended Columbia University and I received my Ph.D. in economics from Columbia in 1940.

I was an instructor in economics and business administration at Rensselaer Polytechnic Institute from 1938 to 1941. I had previously completed my course work at Columbia and then I finished my dissertation and got my degree in 1940, while I was an instructor.

Then, with the outbreak of the war, I came into the Government service and I worked for the Office of Price Administration from 1942 to 1945. The first year I was an economist in the Chemicals and Drugs Branch, the Price Control portion of OPA, and then I was the head economist or chief economist in the Building Materials and Construction Branch of OPA, Office of Price Administration, [fol. 574] in Washington from 1943 until 1945.

In the spring of 1945 I transferred out to the Los Angeles office and I was the head economist, head price economist, of the Los Angeles office of the Office of Price Administration, until about the end of that program in 1946.

I was Regional Economist for the United States Department of Commerce, Regional Office, in Los Angeles for about a year, and then in 1947 I went to the University of Southern California and I was head of the Department of Marketing of the School of Commerce, what is now the School of Business at the University of Southern California, and I held that position until I came with the Antitrust Division in 1948.

I have been a lecturer part time at the University of Southern California in marketing and later in economics since 1948.

Q. Are you a member of any professional societies, Dr. Gaffey?

A. Yes. I am a member of the American Economic Association, the Western Economic Association, the Southern California Economic Association, and the American Arbitration Association; and I am a member of the Research Committee of the Los Angeles Chamber of Commerce.

Q. Dr. Gaffey, have you written any books or articles in [fol. 575] your field of work?

A. Yes.

Q. What are they?

A. One book, it's on the productivity of labor in the rubber-tire-manufacturing industry. It was published by Columbia University as one of their studies in history of economics and public law; and a monograph—it was a post-war business review of the Pacific Southwest. I have forgotten the exact title, but that is the approximate title. However, it was published by the Field Service of the United States Department of Commerce and was an ex-

planation of the reconversion and industrialization of that area during and immediately after the war.

I have written several articles on labor productivity in industry and on wages and on marketing efficiency, and one on changing use of transportation facilities and its effect upon marketing, one professional paper, which was later published as an article in the Western Economic Association, on recent developments in antitrust cases.

Q. Dr. Gaffey, have you done economics work in connection with other antitrust cases?

A. Yes.

Q. What are some of those cases that you have worked on?

A. Well, I was economist for the West Coast oil-con- [fol. 576] spiracy case, which was filed in 1950. It was finally settled by a consent decree there, but I prepared a great deal of statistical and economic information which was to have been used in the trial, and a considerable amount of it was explored in the deposition which I gave prior to the time the trial was expected to take place.

Q. Have you done similar economic work in connection with other antitrust cases?

A. Yes, on several other occasions.

Q. What has been your main area of work in the Antitrust Division for the past several years?

A. Well, my first work in the Antitrust Division was largely in conspiracy—price-fixing cases—but in the last few years I have concentrated more largely upon merger and acquisition cases, although I continued in both types of work.

Q. Dr. Gaffey, in connection with this pending litigation, what has been your assignment?

A. I have been in charge of assembly of facts and compilation of facts and figures to show the economic effect and significance of the proposed combination of these two banks.

Mr. Reycraft: We have a set of tables, if Your Honor please, which I have asked Mr. O'Donnell to hand to the Clerk for Your Honor.

[fol. 577] Mr. Littleton: If Your Honor please, before we get to that, I wonder if I could ask for an offer of proof at this point because we had understood from Mr. Rey-

craft that the doctor was to be called simply to identify documents.

Mr. Reycraft: Well, Dr. Gaffey is going to testify with respect to compilation of tables which he has made from available reliable sources, including records obtained from the defendants.

It is not our intention to offer Dr. Gaffey's testimony with respect to the economic effect of the merger, so that Dr. Gaffey's testimony will be limited to the work which he has done in preparing economic information with respect to the merger.

Mr. Littleton: May I ask him a couple of questions, Mr. Reycraft?

Mr. Reycraft: Yes, sir.

By Mr. Littleton:

Q. Dr. Gaffey, I didn't catch it—maybe you said it—have you ever done any work in banking before this?

A. I have done a good deal of study in banking, yes.

Q. Have you ever written anything?

A. Not——

Mr. Reycraft: May I——

The Witness: I have written a good deal of informa- [fol. 578] tion, but it has been not for publication, and it has been memoranda for use in Government investigations.

By Mr. Littleton:

Q. Have you ever taught banking?

A. No. I never taught a specialized course in banking and finance. I have taught the banking and finance elements.

Q. Banking is a pretty general subject.

A. I have taught survey courses in economics and business administration which included a coverage of the main elements of the banking system as a segment of those courses.

Q. Have you ever done any special study in banking?

A. Yes.

Q. Whereabouts and when?

A. In the Antitrust Division.

Q. In the Antitrust Division?

A. Yes. Other matters that are involved——

Q. When did you do this?

A. Last year and this year.

Q. In connection with what case?

Mr. Reycraft: I object, Your Honor.

I must say, to protect Dr. Gaffey, that there are matters pending within the Department which Dr. Gaffey is not free to disclose; but his testimony that he has been working in this area for at least the last two years is correct.

[fol. 579] I suggest that Mr. Littleton confine his questions to study in connection with matters which are public.

By Mr. Littleton:

Q. In connection with the study that you have been making in the Antitrust Division of this unnamed case, what studies have you made? What sources have you gone to?

A. Our sources have been largely the reports of the firms concerned and other firms that are in competition with them; and published information, financial manuals, and other public information which is available with regard to banks and financial institutions.

Q. Do I infer correctly that you were doing the same type of work there that you have been doing in this particular case?

A. Generally similar.

Q. And that you considered studying banking or doing research in banking?

A. Yes.

The Court: Do I understand that he is merely to explain the figures which he has compiled?

Mr. Reycraft: That's right, Your Honor.

The Court; Their sources and so forth?

Mr. Reycraft: Yes, sir. That is correct.

The Court: All right.

[fol. 580] Mr. Littleton: I understand he is not to express an opinion.

Mr. Reycraft: I don't intend to ask him any opinion.

The Court: No.

By Mr. Reycraft:

Q. Dr. Gaffey, will you refer to Table No. 1, which we have marked as Government's Exhibit No. 1,——

Mr. Littleton: If Your Honor please, before the doctor gets to that, I notice Mr. Reycraft refers to it as having been marked for identification as Table No. 1.

May I say that we were given to understand on Friday that the documents (and Mr. Reycraft will correct me if I am wrong) that he expects to have identified by Dr. Gaffey or someone else for this record number in the order of three hundred to four hundred.

Mr. Reycraft: No, indeed, that is not correct.

Mr. Littleton: How many?

Mr. Reycraft: No. Dr. Gaffey does not intend to identify documents numbering from three hundred to four hundred. I believe they are in the neighborhood of forty to forty-five documents.

Mr. Littleton: I said by Dr. Gaffey or others.

Mr. Reycraft: Or others; that's possible.

[fol. 581] Mr. Littleton: It is possible that it will be three hundred to four hundred?

The Court: Do I understand that they have already been marked?

Mr. Reycraft: Yes, sir.

What is the maximum number at the moment——

Mr. Price: None of them were marked, sir. They were marked informally, merely.

The Court: Just informally?

Mr. Reycraft: Yes, sir.

Mr. Littleton: Purely informally.

The statement, as I understand it, is that the numbers might be changed, that they might be offered in a different order, that additional documents might be used; so I think that if there is to be any reference to marking for identification they should be so marked here and handled in the normal way.

Mr. Reycraft: That is perfectly agreeable, if Your Honor please.

The Court: I think probably it would be better to have the Clerk mark each one of them as you offer it not as you offer them. I don't want any offered as such until the conclusion of the case.

Offer them for identification. You may use them, but [fol. 582] they won't be admitted until the end of the case.

Mr. Littleton: If Your Honor please, your comment suggests this to me, that in view of this large number of documents to be so identified and perhaps not offered until the end of the case, I would suggest that if each document is offered we would have an explanation accompany it by Mr. Reycraft as to its relevancy, because we take this first one that he is offering—number of banking offices of commercial banks in Philadelphia, Montgomery, Delware, and Bucks Counties in Pennsylvania,—now, in the complaint which the Department of Justice has filed here the offense charged in paragraph 15 is, beginning sometime prior to November 15, 1960, and continuing thereafter up to and including the date of the filing of this complaint, defendants, Philadelphia National and Girard Trust, have been engaged in an unlawful combination in unreasonable restraint of the above-described interstate trade and commerce in violation of Section 1 of the Sherman Act.

We go to the above-described interstate trade and commerce, which is described in paragraph 14 immediately preceding and that reads that customers of Philadelphia National and Girard Trust have regularly utilized interstate communications, including the mails, telephone, and [fol. 583] telegraph to effect deposits, apply for and obtain loans, and obtain other services made available by these banks. The banks have regularly utilized interstate communications, including the mails, telephone, and telegraph, to conduct banking business with customers and with other banks located in states other than the state in which they are located. The banks have received a substantial amount of deposits from states other than the state in which they are located, and have made a substantial amount of loans to customers in such other states. Philadalphia National and Girard Trust are engaged in interstate commerce.

We do have business in New Jersey——

The Court: That refers back all the way to paragraph 5 through 14?

Mr. Reycraft: I may say, Your Honor, that these facts are admitted.

Mr. Littleton: I am not denying it. I am not denying it.

Your Honor's question was what?

The Court: You have said that they described interstate trade and commerce only in 14. My question directed to you is, isn't that an all-inclusive statement of 5 through 14?

Mr. Littleton: I think it is, if Your Honor [fol. 584] please.

I am reading from this and directing Your Honor's attention to it simply to point out the fact that the Government is here averring that we are in interstate commerce. We concede that. We concede that our area includes New Jersey and Delaware, as well as Pennsylvania.

It is perfectly obvious. Here is Camden, right across the river, with two large bridges and thousands of people going back and forth every day, and everyone that knows anything about Philadelphia knows that that is part of the Philadelphia area, certainly, so far as banking is concerned.

Wilmington is likewise so. Wilmington is a great deal nearer than many places in the contiguous County of Chester.

Table No. 1 simply offers the number of banking offices of commercial banks in Philadelphia, Montgomery, Delaware, and Bucks Counties in Pennsylvania; and I ask that the Government Antitrust Division state each time it presents one of these documents for identification the relevancy in view of the averments of the complaint to which I have directed Your Honor.

Mr. Reycraft: May I say, Your Honor, at this point, that the Government surely does not take the position [fol. 585] that the banks do not do some business outside of this immediate area. In fact, our statistical tables will show precisely that.

I think the fact that the defendants have here admitted the substantial allegations of paragraph 14 of the complaint indicates that there is no doubt that these banks regularly utilize interstate communications, the mails, telephone, and telegraph, to effect deposits; that they apply for——

The Court: His objection goes a little deeper than that, Mr. Reycraft. He says that despite all that you are putting in a table including only four counties, as if that table

will include the question that they are in competition only intrastate, nowhere else.

Mr. Reycraft: No, sir. It is a fact, and I know that Mr. Littleton doesn't deny it, that these banks have banking offices only in these four counties. The table is relevant for that reason and for that purpose.

The Court: It is relevant to your theory of the case.

Mr. Reycraft: Yes, sir. That's right.

Mr. Littleton: The thrust to my objection, if Your Honor please, is that the Antitrust Division has not, before it produces these documents, defined what it considers to be [fol. 586] the relevant area, the relevant market area of these two banks and the resultant bank; and to just start by putting in something that takes in only a few of the counties and the banks therein and does not talk about New Jersey, Delaware, and the counties there which we contend are in the banking area of the Philadelphia Bank and the Girard Bank and the resultant bank, I think the Government should be made to establish relevancy by defining what it concedes to be the relevant market for the purposes of this case.

Mr. Reycraft: We think the four-county area which is set forth in Table 1 is the most relevant area within which to test the competitive effects of this merger.

The Court: So your theory of the case is that the only area involved here are the four Pennsylvania counties?

Mr. Reycraft: We think it is the most relevant area, Your Honor, in which to test the effects of this merger.

The Court: The most relevant?

Mr. Reycraft: Yes.

The Court: Is this the only area——

Mr. Reycraft: I think, Your Honor, that we could go beyond the area to show other areas where the banks compete, but I don't think it is necessary to the theory of [fol. 587] our case.

The Court: You had better get off on a firm footing. We are on a little quicksand here. We are on shifting sands.

Mr. Reycraft: No, sir, Your Honor.

The Court: I think the Government ought to take a position as to what it deems the relevant geographical area. I think that is always important in an antitrust case.

Mr. Reycraft: Yes, sir. It is the four-county area which is the most important geographical area.

I might explain that, that if the effects of the merger show a restraint of trade, a lessening of competition, or a monopoly in any area out of the whole United States, that alone is sufficient to make it unlawful in our judgment.

Now, this does not mean that we have to meet Mr. Littleton in every area where there may be some peripheral competition between the banks, but we think that no doubt in view of the fact that these are the counties where the banks have their main offices, the fact that the statistics will show that this is where they do the bulk of their business, that this is the most relevant geographic market area and that this is the one on which we will rely.

The Court: I am going to let him proceed, Mr. Little-
[fol. 588] ton. I think we have thrown a little light here on the respective theories.

He is entitled to present his case on his own theory and whether it is right or wrong he has a right to do it.

Mr. Littleton: It seems to me that there is an extreme number of documents,——

The Court: He has stated his position that this is the most relevant area as affecting competition.

Mr. Reycraft: Yes, sir. That is our position, Your Honor.

The Court: All right.

Mr. Reycraft: Will you mark for identification as Government Exhibit No. 1 "Table 1, Number of Banking offices of Commercial Banks in Philadelphia, Montgomery, Delaware and Bucks Counties in Pennsylvania"?

The Court: Please let that remain with the reporter. I prefer to have the reporter take charge of these exhibits.

(Document headed "Table 1," entitled "Number of Banking Offices of Commercial Banks in Philadelphia, Montgomery, Delaware and Bucks Counties in Pennsylvania," was marked Exhibit G-1 for identification.)

[fol. 589] By Mr. Reycraft:

Q. Dr. Gaffey, was Government's Exhibit No. 1 for identification prepared under your direction or supervision?

A. Yes, it was.

Q. What sources did you use for this exhibit?

A. The data for the two defendant banks, Philadelphia National Bank and Girard Trust Corn Exchange, were secured from those companies' answers to the Government's complaint in this case; and the data for all the other banks which have offices in this area were secured from a report by the Board of Governors of the Federal Reserve System.

This was a special report prepared by the Board of Governors of the Federal Reserve System made to the Comptroller of the Currency under Section 18(c) of the Federal Deposit Insurance Act, with particular reference to this proposed consolidation.

Q. Dr. Gaffey, what does the data which you have assembled show with respect to the number of banking offices held by Philadelphia National Bank and Girard?

A. It shows that Philadelphia National had twenty-seven offices and Girard had thirty-eight offices, or a total of sixty-five offices out of a total number of offices, two-hundred eighty-four, of all of the commercial banks operating in this area.

[fol. 590] It shows that the Philadelphia National Bank and Girard Trust Corn Exchange Bank have 22.9 per cent of all of the banking offices, or would have that proportion of the total number of banking offices if they were combined.

Q. Dr. Gaffey, what is the relation between these figures and the number of offices held by the next three or four largest banks?

A. Well, the combined total number of offices of Philadelphia National and Girard Trust would be far and away greater than that of any other bank. They would be about half again as many offices as the next largest bank, more than three times or about three times the number of offices of the third largest bank, and so on.

It would give them an overwhelming advantage.

Mr. Littleton: Excuse me. Have you finished with Exhibit 1?

Mr. Reycraft: Yes.

By Mr. Littleton:

Q. When you were making up this table did you find out how many banks from outside the four counties have representatives soliciting deposits and loans in this four-county area?

A. Do I understand your question, have representatives soliciting deposits and loans?

Mr. Littleton: Would you read my question, please?

[fol. 591] (The reporter read the pending question.)

The Witness: No. This is all the banks that have offices in this four-county area; but I don't know about their representatives, what representatives other banks located elsewhere may have.

Mr. Reycraft: That is all the table purports to represent.

By Mr. Littleton:

Q. Was your reason for not getting that information the fact that you didn't think it was important or that you weren't so instructed?

A. Well, I didn't think it was important. This is a compilation of banking offices. It does not purport to be a compilation of what representatives of banks located elsewhere may have in that area.

Q. In other words, this isn't a compilation of the relevant market for the Philadelphia Bank or the Girard Trust Company?

A. I don't believe you have made a correct statement there, sir.

Q. Well, tell me. What is your answer to my question?

Mr. Littleton: Read the question.

The Witness: Will you read the question?

(The reporter read the question as follows:

[fol. 592] "Q. In other words, this isn't a compilation of the relevant market for the Philadelphia Bank or the Girard Trust Company?")

The Witness: I believe that it is a compilation of the relevant market of the Philadelphia National Bank and the

Girard Trust Corn Exchange Bank in so far as number of banking offices is concerned.

By Mr. Littleton:

Q. Do you mean that within these four counties these banks have this number of offices?

A. That's all.

Q. And that is all?

A. That's all the banking offices there are in these four counties, as far as I was able to ascertain.

Q. Did that satisfy your definition of relevant market of the Philadelphia National Bank and the Girard Trust?

A. Well, I don't think the number of banking offices is the only basis on which one determines whether a particular area is a relevant market for banks or not. It is one criterion, one of many, in other words.

Mr. Reycraft: Your Honor, I object to this line of questioning.

The Court: I think I will sustain the objection.

[fol. 593] It is put in here merely to state that the report shows X number of banks. It means no more and no less.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 2 a document marked "Table 2," entitled "Comparison of Total Deposits and Deposits of Individuals, Partnerships and Corporations of the Philadelphia National Bank and Girard Trust Corn Exchange Bank with such Deposits of all Commercial Banks in Philadelphia, Montgomery, Delaware and Bucks Counties in Pennsylvania as of October 3, 1960."

(Document headed "Table 2," entitled "Comparison of Total Deposits and Deposits of Individuals, Partnerships and Corporations of the Philadelphia National Bank and Girard Trust Corn Exchange Bank with such Deposits of all Commercial Banks in Philadelphia, Montgomery, Delaware and Bucks Counties in Pennsylvania as of October 3, 1960," was marked Exhibit G-2 for identification.)

Mr. Littleton: Mr. Reycraft, will you excuse me a minute? I have two more questions on Table 1.

By Mr. Littleton:

Q. Are you aware of an office of the First Camden National Bank located on Market Street in Philadelphia?

A. Yes.

Q. Why don't you include it in here?

[fol. 594] A. Well, this is a compilation of all of the banks—this is a compilation of all of the banks having banking offices, all the commercial banks having banking offices in these four counties.

Q. Is that what the title said? Read the title.

A. Number of banking offices of commercial—I am sorry, let me start again.

"Number of Banking Offices of Commercial Banks in Philadelphia, Montgomery, Delaware and Bucks Counties in Pennsylvania."

Q. Is First Camden National a commercial bank?

A. Yes.

Q. Has it an office in Philadelphia on Market Street?

A. Yes.

Q. That has been there for years?

A. I think, sir, you are assuming that it is not included in here. I did not say that it was not included.

Q. Where did you say that it was included?

Mr. Reycraft: If I may refer to this exhibit, it lists the names of the first eight banks; it then says some other commercial banks with head offices in Philadelphia, which does not include the Camden Bank.

It then refers to Montgomery County Bank & Trust Company, Norristown; it then refers to fifteen other commercial [fol. 595] banks with head offices in Montgomery County; it refers to Delaware County National Bank, Chester; and refers to nine commercial banks with head offices in Bucks County.

Mr. Littleton: What does that mean?

Mr. Reycraft: That explains that the table states exactly what it purports to be.

By Mr. Littleton:

Q. Does it include the Market Street office of the First Camden National Bank in Philadelphia?

A. I think not. I believe it includes only banks which

have head offices in one of these counties; and that bank does not.

Q. Is that why you included Brown Brothers Harriman & Company?

A. Well, Brown Brothers Harriman is a somewhat unusual organization. There is some question whether it is a commercial bank.

Q. This firm's head offices are in New York; don't you say that?

A. Yes. That's included as a special explanation. We included it for the purposes of completeness. There is some doubt as to whether it should have been included, strictly speaking.

Q. Well, for the same purposes of completeness, do you [fol. 596] say now that you should or should not have included the First Camden National Bank office which is on Market Street in Philadlephia?

A. Well, perhaps it should have been included on the same basis.

Q. Have you the figures with respect to it?

A. (No response.)

Q. Have you the figures with respect to it?

A. I believe there is only one such bank.

Q. All right.

A. That would be one more bank.

Q. Now, in the Footnote 1 you have included the words, after "Finance Company of Pennsylvania," in parentheses "Industrial bank."

Would you tell us what you mean by that?

A. Well, that's a term that is not widely used or real clearly defined, but it usually means an institution——

Q. I want to know what you mean by it here.

A. Yes, sir. I am attempting to tell you.

Mr. Reycraft: If you are asking him to testify as an expert as to what an industrial bank is, I object to the question.

The Court: No, that isn't what he asked. Your objection is overruled.

[fol. 597] He asked him what he meant. He prepared the chart, he has some meaning in it; and that is all he is asking.

The Witness: That bank is listed as such in banking directories.

"Industrial bank" as a term means a banking institution which specializes in small industrial-type loans and generally does not do a general commercial-banking business on as broad a basis as most commercial banks.

The term, I believe, arrows more or less parallel with industrial insurance, which is insurance policies that are sold in relatively small amounts to wage earners with frequent payment of premiums there.

By Mr. Littleton:

Q. But you include it here because that is your idea of an industrial bank, or did you include it because that is what it said in the manual which you were using?

A. Well, for both reasons. I included it for completeness.

I think it is a marginal type of operation. There is some doubt whether or not it should have been included, but I included it for completeness.

Mr. Littleton: All right.

Thank you, Mr. Reycraft.

[fol. 598] By Mr. Reycraft:

Q. Dr. Gaffey, with reference to Government's Exhibit No. 2, would you describe what the data show with respect to the total deposits of the banks which would be combined?

A. This shows the total deposits of Philadelphia National Bank of $986,000,000 and Girard Trust Corn Exchange Bank of $668-plus million; or a combined total of $1,655,000,000, or approximately 36 per cent of all of the deposits of commercial banks in this four-county area; and on deposits of individual partnerships and corporations, which are the greater portion of bank deposits, it shows their total deposits, total combined deposits of the two banks, Philadelphia National and Girard, of $1,163,000,000, or something over 42 per cent of total deposits.

Q. How do the total deposits compare to the deposits held by the next five largest banks?

A. Well, they are very much larger than any other bank. Taking total deposits, approximately 36 per cent for this proposed combination and approximately 22 per cent for the next largest bank, so that this proposed combination would be more than half again as large as the next largest one.

It would be more than three and half times as large as the third, and also more than three and half times as large as the fourth; about almost seven times as [fol. 599] large as the fifth largest bank.

It would be very much larger than any of it competitors that would remain.

Q. Do the same proportions hold true with respect to the deposits of individual partnerships and corporations?

A. The proportions are quite similar, yes.

Q. Dr. Gaffey, what were the sources on which you relied in preparing this exhibit?

A. This information came from the Federal Reserve Board, from that special report which they prepared with reference to this proposed consolidation, the same report that is cited in Table No. 1.

By Mr. Littleton:

Q. Doctor, I notice you have again omitted the Market Street office of the First Camden National Bank & Trust Company.

A. Yes.

Q. That is correct, isn't it?

A. Yes.

Q. Do you think it should have been included?

A. No. I think clearly it should not have been included in this table.

There is some possible question with regard to the first one, but I don't think there is any question at all with regard to this one because the headquarters and the [fol. 600] greater part of the deposits of that bank would be at its headquarters.

Q. You don't think deposits made on Market Street, Philadelphia, have anything to do with this table?

A. Well, deposits made are made in a bank and they are an obligation of the bank, the institution as a whole, not

the particular office in which the depositor happens to hold his account.

Q. Was this the reason that you omitted reference to the First Camden?

A. Yes.

Q. May I ask, then, why with reference to Brown Brothers Harriman, you say this firm's head office is in New York, but that it has its major office in Philadelphia, only the deposits of this firm's Philadelphia office are included?

You did that, did you not?

A. Yes.

Q. What is the reason that similar treatment should not be had of the First Camden Philadelphia office?

A. Well, the information was available and was compiled on this basis by the Federal Reserve Board, the Board of Governors of the Federal Reserve System; and I used their compilation in this manner and did not make any adjustments of it.

Q. I thought a few minutes ago you said that the reason [fol. 601] that you didn't include the deposits of the Market Street office of the First Camden National was because those deposits were the obligation of the main office, which is in Camden.

A. That is correct.

Q. Isn't that what you said?

A. That is correct.

Q. So you exercised judgment as to that.

Now I say, why didn't you exercise judgment similar to the judgment you exercised with reference to Brown Brothers?

A. Well, I think this is one of those matters that could have been done either way. The Federal Reserve Board's Board of Governors did it this way and I accepted their judgment in this matter.

Q. You were trying to show proportions?

A. Yes.

Q. Deposits?

A. Yes.

Q. Doesn't this affect the proportion?

A. Yes, in a very minor way.

Q. It still affects the proportion, doesn't it, Doctor?

A. Yes, but the effect would be, I would judge, insignificant.

[fol. 602] Q. Do you know what the deposits of the Market Street office of the First Camden National Bank are?

A. No.

Q. How can you say they are insignificant?

A. I am——

Q. You are guessing?

A. I am quite sure that as a proportion of the total compilation of deposits here they would be very small.

Q. Let me ask you, did you make any effort to discover the amount of deposits originating in this four-county area but held by banks outside the four-county area?

A. I didn't explore that.

Q. You didn't make any effort to do that?

A. I have no figures on that.

Q. Your answer is no?

A. Yes.

The Court: Before we take the next one, Mr. Reycraft, let's take our ten-minute break.

(A recess was had.)

[fol. 603] By Mr. Littleton:

Q. Dr. Gaffey, just one other question on Table 2: I direct your attention to the item "Nine other commercial banks with head offices in Philadelphia," and you refer to Footnote 1, which gives the list of those nine banks, the last one of which is Brown Brothers Harriman and Company, and then you say, "This firm's head office is in New York but it has a major office in Philadelphia. Only the deposits of this firm's Philadelphia office are included."

What were the deposits of Brown Brothers Harriman's Philadelphia office which you included? How much?

A. I don't have that figure right here, sir.

Q. Could you get it for us?

By Mr. Reycraft:

Q. Dr. Gaffey, isn't it a fact that this information was submitted by the Federal Reserve Board in its report to the Comptroller, a copy of which is in Mr. Littleton's possession? Were you given any information with respect to the

confidential treatment afforded these deposits of Brown Brothers?

A. Yes, they are confidential, that breakdown.

By Mr. Littleton:

[fol. 604] Q. The report by the Board of Governors of the Federal Reserve on this subject, Doctor, says, "Nine other commercial banks with head offices in Philadelphia, total deposits, $146,948,000." There is no footnote or anything else in the Federal Reserve's compilation, and it doesn't say anything about the Philadelphia deposits of Brown Brothers. Now, you say, "Only the deposits of this firm's Philadelphia office are included." What I want to know is how much that is and where you got the figures.

A. Well, I got the information that those figures are included, from the people in the Federal Reserve Board. I talked with the people who prepared this information and asked them for further detail about how it was prepared, and so on.

Q. And did they give you the details?

A. They gave me the list of firms that were included, which I have set forth in the footnote here.

Q. Did they say anything as to the Philadelphia office deposits of Browns Brothers?

A. They told me orally what I have said here, that, of course, this firm's head office is not in Philadelphia, it is in New York, but that the deposits of this firm's Philadelphia office were included. They did not turn over to me the spe-[fol. 605] cific figures of Brown Brothers Harriman's deposits in their Philadelphia office. I feel sure they have them, but I also know that they are confidential figures.

Q. But you never heard the figure?

A. No.

Q. You made no notation of the figure?

A. I don't believe I asked them for the specific figure. I was satisfied that it was included.

Q. You simply put this in this chart because of an oral conversation you had with people who worked on this in the Federal Reserve?

A. I put the figure in my table that the Federal Reserve had in their table for this category, and I explained it a little bit further in this Footnote 1.

Q. On the basis of this oral conversation?

A. Yes.

Q. Were there other oral conversations reflected in these various documents that you are producing here?

A. Well, yes, I talked with the people who prepared the figures. I talked with representatives of the Federal Reserve, yes.

Q. And you have included in these tables the results of oral conversations with staff members of the Federal Re- [fol. 606] serve; is that correct?

A. I have changed no figures in the tables as a result of such——

Q. I didn't ask you that.

A. I sought to understand as fully as possible the basis upon which their figures were compiled and to set them forth as clearly as possible in these tables. Where I thought it necessary to put a footnote explaining a thing like this, I did that.

Q. On the basis of oral conversation?

A. Yes.

By Mr. Reycraft:

Q. Dr. Gaffey, isn't it a fact that all of the figures set forth in Government's Exhibit No. 2 come from the Federal Reserve report?

A. Yes.

Q. And isn't it a fact that the only thing that you have added by way of oral explanation, which you received by way of oral explanation, is the further detail on the breakdown of the Brown Brothers Harriman deposits?

A. Yes. What I have added is in this Footnote 1, a list of the firms which are included in those nine banks. The Federal Reserve's report just said the nine banks, and I inquired into which nine they were and set them forth here. [fol. 607] Q. Dr. Gaffey, if that footnote was excluded, would it affect the figures in any way set forth in this table?

A. No, it would not.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 3, Table No. 3, entitled "Comparison of Total Net Loans of the Philadelphia National Bank and Girard Trust Corn Exchange Bank with such Loans of all

Commercial Banks in Philadelphia, Montgomery, Delaware and Bucks Counties in Pennsylvania as of October 3, 1960."

(Document headed "TABLE 3," entitled "Comparison of Total Net Loans of the Philadelphia National Bank and Girard Trust Corn Exchange Bank with such Loans of all Commercial Banks in Philadelphia, Montgomery, Delaware and Bucks Counties in Pennsylvania, as of October 3, 1960," was marked Exhibit G-3 for identification.)

By Mr. Reycraft:

Q. Dr. Gaffey, with reference to Government's Exhibit No. 3, will you state the sources on which you relied in preparing this exhibit.

A. This came from the same source, the report by the [fol. 608] Board of Governors of the Federal Reserve System to the Comptroller of the Currency with respect to this proposed consolidation.

Q. And what did the data show with respect to the total loans of the two banks?

A. They showed total loans of the two banks combined of over $955,000,000.

Q. What do they show in relation to the loans of the next five largest banks?

A. Well, the combined loans of the Philadelphia National and Girard Trust are more than 34 per cent of the total, and that is about 1½ times that of the second largest bank and about 3½ times of the third largest bank, and the fourth largest bank, it is about five times.

By Mr. Littleton:

Q. Doctor, again you have omitted the loans of the Market Street Philadelphia office of the First Camden National Bank and Trust Company, have you not?

A. Yes.

Q. And again you state that of the nine other commercial banks with head offices in Philadelphia, total loans aggregated $80,817,000. Brown Brothers Harriman is one of those, and you say, "This firm's head office is in New York [fol. 609] but it has a major office in Philadelphia. Only the loans of this firm's Philadelphia office are included."

What is the figure as to these loans?

A. Well, the situation with respect to that is the same as with the previous table. That is, I do not know the specific figure.

Q. You have never been told?

A. No.

Q. You have no memorandum of it?

A. No.

Q. And you do this simply on the basis of an oral conversation with staff members of the Federal Reserve?

A. I used the figures which the Federal Reserve used in their report, and I sought to explain them in this way.

Q. And you have made the note that only the loans of this firm's Philadelphia office are included. You made that note as a result of oral conversation with someone in the Federal Reserve; is that correct?

A. Yes.

Q. Now, did you make any effort to discover the amount of loans originating from the four-county area but held by banks outside the area?

A. I know of no source of that information, and I [fol. 610] didn't——

Q. Did you make any effort to find out what they were?

A. No. I relied on the Federal Reserve report for this category.

Q. In your oral conversations did you ask them whether they had made any effort to ascertain the amount of loans originating in this four-county area and held by banks outside the area?

A. I don't believe I asked them that question.

Mr. Littleton: All right.

By Mr. Reycraft:

Q. Dr. Gaffey, isn't it a fact that if this explanatory footnote were omitted, it would not change the figures contained in the Federal Reserve report in any way?

A. Yes, that is true.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 4, Table 4, which is entitled "Comparison of Capital Funds of the Philadelphia National Bank and Girard Trust Corn Exchange Bank with such Capital

of all Commercial Banks in Philadelphia, Montgomery, Delaware and Bucks Counties in Pennsylvania as of October 3, 1960."

(Document headed "TABLE 4," entitled "Comparison of Capital Funds of the Philadelphia National Bank and Girard Trust Corn Exchange Bank with such Capital of all [fol. 611] Commercial Banks in Philadelphia, Montgomery, Delaware and Bucks Counties in Pennsylvania as of October 3, 1960," was marked Exhibit G-4 for identification.)

Q. Dr. Gaffey, referring to Government's Exhibit No. 4; what is the source of the information contained in this exhibit?

A. The source of this table is also a report by the Board of Governors of the Federal Reserve System with respect to this proposed consolidation.

Q. And what does the data show with respect to the capital funds of the two banks which wish to be merged?

A. It shows combined capital funds of the two banks which are proposing to merge of almost $170,000,000, which is a little over 35 per cent of the capital funds of all the commercial banks with headquarters in these four counties.

Q. How do these figures compare with the capital funds of the next five largest banks in Philadelphia?

A. Well, the combined capital funds of Philadelphia National and Girard would be almost double the capital funds of the next largest bank and about three times that of the third largest and approaching four times that of the [fol. 612] fourth largest and between six and seven times as large as the fifth largest bank in the area.

Q. Now, Dr. Gaffey, referring to the Footnote No. 1, if the statement in the footnote relating to Brown Brothers Harriman were omitted, would it change the figures set forth in the Federal Reserve System report in any way?

A. No, it would not.

By Mr. Littleton:

Q. You have not included any portion of the capital assets of the First Camden National there, have you?

A. No.

Mr. Littleton: All right, that is all.

Mr. Reycraft: Will you mark for identification as Govern-

ment's Exhibit No. 5, Table 5, entitled "Comparison of Deposits Due to Banks in the Philadelphia National Bank and Girard Trust Corn Exchange Bank with such Deposits of the Principal other Commercial Banks in Philadelphia Holding such Deposits as of October 3, 1960."

(Document headed "Table 5," entitled "Comparison of Deposits Due to Banks in the Philadelphia National Bank and Girard Trust Corn Exchange Bank with such Deposits of the Principal other Commercial Banks in Philadelphia [fol. 613] Holding such Deposits as of October 3, 1960," was marked Exhibit G-5 for identification.)

Q. Dr. Gaffey, in preparing Government's Exhibit No. 5 what materials did you rely on?

A. For this table also I relied upon the report of the Board of Governors of the Federal Reserve System with respect to this proposed consolidation.

Q. And what does the data show with respect to the deposits due to banks?

A. Deposits due to banks, Philadelphia National and Girard Trust had $263,000,000, and the total of all banks which were compiled had $533,000,000, so Philadelphia National and Girard Trust had almost half of the deposits due to banks of all those that were shown.

Q. And how do these deposits compare with the deposits held by the next four largest banks?

A. Well, the combined deposits of Philadelphia National and Girard are about half again as much as the next largest, and they are between six and seven times as large as the third largest, and about the same as the fourth largest, and more than 16 times as large as the fifth largest in the area.

Q. Dr. Gaffey, why were only the first six banks included in this?

[fol. 614] A. The report of the Board of Governors of the Federal Reserve System states that the amount of such deposits in Philadelphia is significant in only the above banks. The smaller banks just don't have any significant volume of these in their bank deposits.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 8, Table 8.

Mr. Littleton: Excuse me, Your Honor. Do we have a six and seven?

Mr. Reycraft: I have Government's Exhibit No. 6, which is entitled "Table 6," and the caption is "Analysis of Loans and Discounts of the Philadelphia National Bank and Girard Trust Corn Exchange Bank and Comparison of Their Combined Loans and Discounts with Total Loans and Discounts of Commercial Banks in Philadelphia with Total Loans and Discounts of Commercial Banks in Philadelphia, Delaware, Montgomery and Bucks Counties, Pennsylvania, as of June 15, 1960."

(Document headed "Table 6," entitled "Analysis of Loans and Discounts of the Philadelphia National Bank and Girard Trust Corn Exchange Bank and Comparison of Their Combined Loans and Discounts with Total Loans and Discounts of Commercial Banks in Philadelphia with [fol. 615] Total Loans and Discounts of Commercial Banks in Philadelphia, Delaware, Montgomery and Bucks Counties, Pennsylvania, as of June 15, 1960," was marked Exhibit G-6 for identification.)

Q. Dr. Gaffey, referring to Government's Exhibit No. 6, what data did you rely upon in preparing that exhibit?

A. This information came from the reports of condition of the two banks that proposed to merge and summaries of each item of such reports of condition of all the other banks in the area, to get area totals.

Q. Dr. Gaffey, what do the data show with respect to real estate loans in Philadelphia?

A. Well, there are five classes of real estate loans, and the proportions vary somewhat by classes.

In the first class, in farm lands, Philadelphia National has almost 54 per cent of the total. Girard's total is similar there.

The other classes are larger quantitatively but particularly (b) and (d) and (e), they show—perhaps we ought to take them on the combined basis—they show a range from, considering all five classes of real estate loans, from 36½ to almost 61 per cent of real estate loans of commercial banks in this area in Philadelphia, were held by Phila- [fol. 616] delphia National and Girard Trust. The over-all average for that group in Philadelphia, Philadelphia National and Girard Trust had 41½ per cent of all of the real

estate loans considered together of the commercial banks with headquarters in Philadelphia.

Q. In the same category, Dr. Gaffey, what does the information show with respect to the figures in the 4-county area?

A. Generally similar relationships but somewhat smaller figures. On an over-all basis 30.5 per cent or almost 31 per cent of the real estate loans in the 4-county area by commercial banks were held by these two banks that are seeking to combine. There was some variation within the categories. They went from a low of 19.7 per cent to a high of 41.4 in the five subclassifications.

Q. Referring to the second category of information set forth in this exhibit, what do the data show with respect to commercial banks in Philadelphia?

A. Well, in the first class, subclass, loans to domestic commercial and foreign banks, they show that these two combining institutions are overwhelmingly dominant. They have about 86 per cent of all the loans in this category.

[fol. 617] Mr. Littleton: If Your Honor please, the witness says, "overwhelmingly dominant." I understood that this witness was not to express opinions here. For that reason we haven't cross-examined him as fully we might on his qualifications.

Mr. Reycraft: I think Dr. Gaffey was referring to merely statistical terms and not giving an economic conclusion.

Mr. Littleton: If I may be presumptuous, I suggest he restrict himself.

By the Court:

Q. Where do we get 86 per cent?

A. Line 2(a) in "Percent of Total Commercial Banks in Philadelphia." Philadelphia National and Girard Trust had 85.9 per cent of all the loans in this category in Philadelphia.

In the loans to other financial institutions, that is, other than the domestic commercial and foreign banks, their proportion in Philadelphia was 33.7 per cent.

Q. Isn't that an over-all? Doesn't that 85.9 reduce on the over-all picture to 38.3?

A. Yes, it does. The 38.3 is the weighted average of the [fol. 618] two categories, 2(a) and 2(b).

Q. 38.3 is actually the average, isn't it?

A. Yes, it is. It is the average proportion that these two banks have of loans to all financial institutions considered together.

The Court: All right. Go ahead, Mr. Reycraft.

By Mr. Reycraft:

Q. Referring to Category 3, Dr. Gaffey, what does the information show with respect to loans for purchasing or carrying securities?

A. This is a category in which the proportions of the two combining banks are smaller than in most others. In 3(a), to brokers and dealers for purpose of purchasing or carrying securities, they have 3.6 per cent, and the average of those two categories is 5.8 per cent.

Q. Referring to Category No. 4, loans to farmers, what is indicated?

A. The two banks that are seeking to combine have 41.4 per cent of such loans of Philadelphia banks.

Q. The next category, No. 5, commercial and industrial loans, would you indicate the relative importance of this [fol. 619] category to the total of loans shown on the chart?

A. Well, commercial and industrial loans are the principal business of commercial banks, and this is by all odds the most important category. It is more important——

Mr. Littleton: I move that it be stricken. The witness was instructed not to express opinions. He is expressing one after another.

The Court: It may be stricken.

The Witness: I am sorry. May I start again? Commercial and industrial loans account for a greater volume than any other category, and they approach being as important as all other categories combined.

Q. Dr. Gaffey, what are the relative percentages with respect to other banks in the area?

A. In commercial and industrial loans Philadelphia National has 25.4 per cent of the total and Girard has 17.3 per cent of the total, so combined they would have 42.7 per cent of the total commercial and industrial loans of commercial banks in Philadelphia.

Q. Moving into the category of the 4-county area, what do the statistics indicate?

A. The proportion is slightly lower. It is 40.8 per cent. [fol. 620] That is, Philadelphia National and Girard combined would have 40.8 or almost 41 per cent of the commercial and industrial loans of all commercial banks in these four counties.

Q. Dr. Gaffey, would you describe the type of information included in Category No. 6.

A. Well, these are the typical consumer type loans. The subcategories explain them. That is, to purchase private passenger automobiles, to purchase other retail consumer goods on installments, installment loans to repair and modernize residential property, other installment loans for household, family, and personal expenditures, and single-payment loans. That is where a person borrows money and repays it all at once at the end of the borrowing term instead of by a series of installments.

Q. What do the statistics indicate with respect to the relative shares in these categories?

A. They vary from a low of 12.9 per cent to a high of 41.7 per cent in the different categories, and on an over-all average basis Philadelphia National and Girard combined would have 28½ per cent of all such loans by commercial banks in this area.

[fol. 621] Q. Dr. Gaffey, moving out into the 4-county area, how do the figures change?

A. They change quite slight. The proportion of Philadelphia National and Girard Trust of this type of household, family, and other personal loans in the 4-county area is 26.2 per cent.

Q. In the category of all other loans what do the statistics indicate?

A. They indicate that Philadelphia National and Girard Trust have 41.6 per cent of all loans of this type in Philadelphia and 37.4 per cent of such loans in the four counties.

Q. What are the relative shares with respect to the total gross loans and discounts?

A. Philadelphia National and Girard combined have 36.7 per cent of total gross loans and discounts in Philadelphia and 33.8 per cent of total gross loans and discounts in the four counties combined.

Q. Will you describe the adjustment which is made in Category 9.

A. Well, that is a customary reserve for the fact that some small proportion of people are not able to pay off their loans, for one reason or another, so banks keep a reserve for [fol. 622] that purpose, and after you deduct those reserves you get total net loans and discounts, and the reserves are so small with relation to the gross figures that the percentages of total net loans and discounts are very nearly the same as the percentages on total gross loans and discounts.

By Mr. Littleton:

Q. Doctor, I notice in your note here that none of these figures include Brown Brothers Harriman and Company's loans; is that correct?

A. That is correct.

Q. As I understand it, in this table you restricted yourself simply to commercial banks in Philadelphia and commercial banks in the 4-county area?

A. That is correct.

Q. No other kinds of banks, no other kinds of lending institutions, no savings funds, no savings and loan, no building associations, no insurance companies, in any of these tables?

A. That is correct.

Q. In No. 2, loans to financial institutions, those loans are loans to financial institutions beyond the 4-county area, are they not, as well as within the 4-county area?

[fol. 623] Mr. Reycraft: Well, I object to that. If he knows, he may answer.

The Court: If he knows, he may answer.

A. Yes. This is a classification of loans by type of borrower, not by location of borrower.

By Mr. Littleton:

Q. So that the location might be anywhere from any borrower?

A. Yes.

By Mr. Reycraft:

Q. Dr. Gaffey, isn't it a fact that these are the categories which are used on the call reports?

A. Yes, these are the classifications that are directly taken from the statements or reports of condition to the banking authorities, which are commonly called call reports.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 7, Table 7, captioned "Analysis of Deposits of the Philadelphia National Bank and Girard Trust Corn Exchange Bank and Comparison of Their Combined Deposits with Total Deposits of Commercial Banks in Philadelphia and with Total Deposits of Commercial Banks [fol. 624] in Philadelphia, Delaware, Montgomery and Bucks Counties, Pennsylvania, as of June 15, 1960."

(Document headed "Table 7," entitled "Analysis of Deposits of the Philadelphia National Bank and Girard Trust Corn Exchange Bank and Comparison of Their Combined Deposits with Total Deposits of Commercial Banks in Philadelphia and with Total Deposits of Commercial Banks in Philadelphia, Delaware, Montgomery and Bucks Counties, Pennsylvania, as of June 15, 1960," was marked Exhibit G-7 for identification.)

Q. Dr. Gaffey, in preparing Government's Exhibit No. 7 what was the data on which you relied?

A. These were compiled from reports of condition by the Philadelphia National Bank and Girard Trust Corn Exchange Bank, and with respect to these items on the left, comparable information for all of the other banks in Philadelphia and in these four areas.

Q. Referring to Category No. 1 of demand deposits, "Deposits of Individuals, Partnerships and Corporations," what is the relative importance statistically of this category on total demand deposits?

A. Well, this is much the most important category of demand deposits. It accounts for about three-quarters of [fol. 625] the total.

Mr. Littleton: I move that that be stricken.

The Court: Start over again, Doctor. What you said is stricken.

By Mr. Reycraft:

Q. Dr. Gaffey, will you compare them statistically with respect to their relative size rather than their qualitative importance.

A. Demand deposits of individuals, partnerships and corporations account for about three-quarters of all of the demand deposits.

By Mr. Littleton:

Q. Of what? These two banks?

A. No, of all the banks in the area. I believe that is also true for these two banks, however.

By Mr. Reycraft:

Q. Dr. Gaffey, will you refer to the relative percentages of the Philadelphia National Bank and the Girard.

A. Well, of deposits of individuals, partnerships and corporations, Philadelphia National Bank has almost 20 per cent and Girard has a little over 17 per cent. Their [fol. 626] combined total in Philadelphia is 37 per cent of all of these deposits of commercial banks in Philadelphia.

Q. And what are they by percentages in the 4-county area?

A. In the 4-county area Philadelphia National has approximately 18 per cent and Girard approximately 16, and the combined total is approximately 34 per cent of these deposits of all banks in the 4-county area.

Q. Now, with reference to total demand deposits, what are the relative positions of the two banks in Philadelphia and in the 4 county area?

A. Philadelphia National Bank has 23½ per cent of all demand deposits in Philadelphia and Girard Trust has 15.7 per cent, so that Philadelphia National and Girard Trust combined have 39.2 per cent of all demand deposits in Philadelphia, and in the 4-county area the figures are quite similar. Philadelphia National has 21.9 per cent and Girard Trust 14.7 per cent, so their combined total is 36.6 per cent of the demand deposits in the 4-county area.

Q. Dr. Gaffey, what do the data show with respect to the time deposits of individuals, partnerships and corporations [fol. 627] held in commercial banks?

A. The proportions are quite similar to those of demand deposits. Time deposits of individuals, partnerships and corporations, Philadelphia National has 17.1 per cent of that total in Philadelphia and Girard Trust has 19.5 per cent

of that total in Philadelphia, so their combined total is 36.6 per cent of all commercial banks in Philadelphia.

In the 4-county area Philadelphia National has 13.4 per cent of the total, Girard Trust has 15.3 per cent, and the combined total is 28.7 per cent of time deposits of individuals, partnerships and corporations in the four counties.

Q. What does the information contain with respect to the relative shares of total time deposits?

A. Total time deposits, Philadelphia National Bank has 18½ per cent of the total of all commercial banks in Philadelphia and Girard Trust has 19.1 per cent of that total, so Philadelphia National and Girard Trust combined have 37.6 per cent of all time deposits of commercial banks in Philadelphia.

In the 4-county area they each have approximately 15 per cent, and their combined total is 29.9 per cent.

[fol. 628] Q. Now, with respect to total deposits, including demand and time deposits, what do the figures show?

A. For all deposits combined, Philadelphia National Bank has 22.7 per cent of all such deposits in Philadelphia and Girard Trust has 16.3 per cent of all such deposits in Philadelphia, so their combined of such deposits in Philadelphia is 39 per cent.

In the 4-county area Philadelphia National has 20.5 per cent of all deposits and Girard Trust has 14.8 per cent of all such deposits, so the combined total of Philadelphia National and Girard is 35.3 per cent of bank deposits in the 4-county area.

Q. Dr. Gaffey, in statistical terms, which is the more important or largest category of deposits which is set forth in this exhibit?

A. Well, demand deposits are much more important.

Q. Would you be able to express that in percentages?

A. About ⅘ or approximately 80 per cent, of all the bank deposits are demand deposits, in round numbers.

Q. And what are the approximate percentages of deposits of individuals, partnerships and corporations to the totals?

A. The proprtions are about the same. Demand deposits of individuals, partnerships and corporations are more than [fol. 629] three times as great as time deposits of individuals, partnerships and corporations, and so of the total

deposits of individuals, partnerships and corporations, something over ¾ of that total would be demand deposits of individuals, partnerships and corporations.

[fol. 630] By Mr. Littleton:

Q. Doctor, you have been giving figures here of total deposits of commercial banks, first in Philadelphia. May I ask, how many commercial banks' deposits did you include in the Philadelphia figure? Numbers; first, number of banks.

A. All of them. I believe the total number is seventeen.

Q. Will you name them, please?

A. I don't think I could do that from memory.

Q. Do you mean that you don't have the record of that?

A. I have the records, but I don't believe I have them all here. I had them all.

Q. Well, will you produce them for us?

A. May I say possibly this will help to explain—I did not get the individual records from all of these banks. I got individual reports from the two defendant banks, Philadelphia National Bank and Girard Trust Corn Exchange Bank; and then I got totals of member banks from the Board of Governors of the Federal Reserve System and I got totals of banks which are not members of the Federal Reserve System from the Banking Commissioner of Pennsylvania, and combined them together to get the totals which served as the basis from which these percentages were taken.

Q. Now, in giving the figures for Philadelphia, you don't [fol. 631] know how many commercial banks you have included in this total?

A. I believe that the total number of commercial banks in Philadelphia, the most recent figure, was seventeen.

Q. Well, what has that to do with this chart? I am asking you how many were used in this chart.

A. They were all used.

Q. You used them.

Did you use Brown Brothers?

A. No.

Q. Did you use the Market Street office of the First Camden National Bank & Trust Company?

A. No.

Q. Neither of those——

A. Neither of those were included in the totals which I

obtained from the Board of Governors of the Federal Reserve System and from the Banking Commissioner of Pennsylvania.

Q. But you can't tell us now which ones were included?

A. How is that?

Q. You can't tell us now which ones were included?

A. I can't name them off from memory.

Q. No. Do you have it in the record somewhere?

A. Yes.

Q. Will you bring it in?

[fol. 632] A. I think——

Q. Now let's move to Montgomery County.

A. I think the records may be in Washington.

Q. Well, that's not very far away.

Mr. Reycraft: We will produce the records.

The Witness: All right.

By Mr. Littleton:

Q. Did you include the Second National Bank; do you remember?

A. Yes.

Q. Of Philadelphia?

A. Yes. I did include that.

Q. You did include that.

Now let's move to Montgomery County. How many commercial banks did you include in Montgomery County?

A. I can't tell you from memory the number that were included in each county.

Q. Have you a record of that, with the names of the banks?

A. Yes, I believe so.

Q. And the amounts?

A. No. The amounts, I do not have the amount for each bank. I have the totals which were obtained as I explained.

The totals for the member banks were obtained from the Federal Reserve System and the totals for banks which are [fol. 633] not members of the Federal Reserve System were obtained from the Commissioner—Superintendent of Banking of the State of Pennsylvania.

Q. How about from Delaware County? How many banks did you include from there?

A. Well, I don't know. All I recall——

Q. Have you the slightest idea?

A. All I recall is that there were no state banks in Delaware County.

Q. What does that mean?

A. So that all of the banks that were included were members of the Federal Reserve System.

Q. And how many banks was that?

A. I don't recall.

Q. You mean you have no idea?

A. Well, the number was small. I think there are only two or three. I don't recall, but the number is small; only a small number.

Q. What are those banks? What are their names?

A. I——

Q. Well, let's go to Bucks. Maybe we will have better luck with Bucks.

Mr. Reycraft: I object.

We are going to produce the underlying records which will [fol. 634] give you all of this information, Mr. Littleton.

Mr. Littleton: Here is the man who made up a chart and I want to know how many banks he has included in his chart.

Mr. Reycraft: We are going to give you his underlying records.

By Mr. Littleton:

Q. As to names and as to the number of banks included from each county?

A. Yes.

Q. Do you know whether there were any that you had excluded from Montgomery County, such as you excluded First Camden National and Brown Brothers from Philadelphia County?

A. I know of none that were excluded.

Q. And Delaware County the same?

A. I know of none excluded there.

Q. And Bucks County the same?

A. I know of none excluded there.

By Mr. Price:

Q. Doctor, the other exhibits that you have presented here this morning were all dated October 3, 1960. This is dated June 15th.

What is the significance of the two dates?

A. Well, the significance is that I used in each case the [fol. 635] latest available data which were complete. Where I had the October date I used it. I was not able to get totals for the October 3, 1960, date with respect to these figures and I was able to get June 15th, which was the last previous report of condition; and so I used the June 15th figure for these.

By Mr. Littleton:

Q. This may save a little time.

Do I understand that if I were to ask you the same questions with respect to G-6 that I just asked you with respect to G-7 your answers would be the same?

A. Yes. They would. They were prepared from the same sources. Tables 6 and 7 were prepared in the same manner from the same sources.

Q. Does either one of them reflect any oral conversations that you had with anybody, such as you had in connection with some of the earlier exhibits?

A. Yes. I had some, some conversations with the people at the Federal Reserve with respect to what was included for these tables.

Q. Point out to us on Table G-6, for instance, what you had there which is there as a result of those oral conversations.

A. Well, the total figures which I got from the Federal Reserve with respect to the member banks of the Federal [fol. 636] Reserve System did not include figures for the Second National Bank of Philadelphia, so I called them and asked them the reason for that, and they told me that Second National Bank of Philadelphia is a country bank, which is a different classification for their purposes, which has different reserve requirements; and, therefore, was not in the combined total which they had.

I asked them, therefore, if I were able to obtain the report for that company in order to get the total for all member

banks, would it be proper to add those figures in; and they said yes, that that would be proper procedure; and that's what I did.

Q. Did you get that figure in the form of a memorandum from the gentlemen who were talking to you?

A. No. I got that—I got the statement of condition directly from—I got the statement of condition of the Second National Bank of Philadelphia and took off those figures myself directly.

Q. And that goes for G-7 as well as G-6, does it?

A. Yes. That's true with G-7.

Q. Now, is there any other information on either G-6 or G-7 which is there because of an oral conversation you had with somebody in the Federal Reserve or elsewhere?

A. Yes. I inquired from the Banking Superintendent or [fol. 637] the officials in the Banking Department of the State of Pennsylvania about Brown Brothers Harriman and they told me that their figures, that is, the figures for Brown Brothers Harriman, were not included in the totals which they had supplied to me; and they said they were not separately available.

Q. They were not what?

A. They were not avalaible, they were confidential; and so I used the total which they gave me.

Q. Which did not include Brown Brothers Harriman?

A. Which did not include Brown Brothers Harriman.

Q. In either G-6 or G-7?

A. That's correct.

Q. In both of them?

A. Yes.

Q. Now, what other information is on these charts which comes purely as a result of oral conversations?

A. I don't believe there is any other. I don't believe there is any other information.

Q. And you will produce the underlying information with respect to the other questions I have asked?

A. I didn't understand you.

Q. You will produce the underlying information or memoranda with respect to the other questions which I have asked [fol. 638] you about G-6 and G-7?

A. I will produce—in so far as it is available, I will produce it, yes.

Q. Well, it is available, is it not?
A. Yes.
Q. You saw it, didn't you?
A. Yes.

Mr. Littleton: All right.

By Mr. Reycraft:

Q. Dr. Gaffey, will you identify the persons with whom you had these conversations you referred to at the Federal Reserve Board?

A. I think I can. I have to consult my notes here.

Mr. Leavitt in the office of the Board of Governors of the Federal Reserve System in Washington was my principal informant. I did talk with one or two other people over there, I believe.

Q. Can you obtain those names, Dr. Gaffey?
A. Yes.

Mr. Littleton: I didn't hear that.
Mr. Reycraft: Would you repeat the answer?

(The reporter read the testimony as follows:

"Q. Can you obtain those names, Dr. Gaffey?
"A. Yes.")

[fol. 639] The Witness: I don't really believe I secured any significant information from anybody else except Mr. Leavitt, although I did talk to three or four other people there.

Mr. Reycraft: Mr. Littleton wants to know their names so we will give them to him.

The Witness: All right. I will.

Do you want me to look further now?

Mr. Reycraft: No. We can defer that.

Will you now mark for identification as Government's Exhibit No. 8, Table 8, entitled "Comparison of Total Assets of The Philadelphia National Bank and Girard Trust Corn Exchange Bank With Total Assets of All Commercial Banks in Philadelphia and With Total Assets of All Commercial Banks in Philadelphia, Delaware, Montgomery and Bucks Counties, Pennsylvania, as of June 30, 1960."

(Document headed "Table 8," entitled "Comparison of Total Assets of The Philadelphia National Bank and Girard Trust Corn Exchange Bank With Total Assets of All Commercial Banks in Philadelphia and With Total Assets of All Commercial Banks in Philadelphia, Delaware, Montgomery and Bucks Counties, Pennsylvania, as of June 30, 1960," was marked Exhibit G-8 for identification.)

[fol. 640] By Mr. Reycraft:

Q. Dr. Gaffey, referring to Government's Exhibit No. 8, what data, what sources did you rely upon in compiling this exhibit?

A. This was compiled from Polk's Bank Record.

Q. Will you explain the footnote which is at the bottom of this exhibit?

A. I did not include Brown Brothers Harriman in this tabulation, either. It is a private bank, its headquarters or head office is in New York, and it has an office in Philadelphia.

The total assets of this firm on June 30, 1960, were $253,611,000.

I had available no information as to how much of such assets were devoted to commercial banking in Philadelphia, Delaware, Montgomery, and Bucks Counties, Pennsylvania.

Q. Dr. Gaffey, what do the statistics show with respect to the relative shares of Philadelphia National and Girard Bank as compared with all other commercial banks in Philadelphia?

A. It shows that Philadelphia National Bank had 23.1 and Girard had 16.1 of the total assets of all commercial banks in Philadelphia; and their combined total proportion was, therefore, 39.2 per cent.

[fol. 641] Q. And with respect to the four-county area?

A. The proportions are quite similar. Philadelphia National Bank had 21 per cent of the total assets of the commercial banks in the four-county area and Girard had 14.7 per cent of that total; so Philadelphia National and Girard combined had 35.7 per cent of the total assets of all commercial banks in those four counties.

By Mr. Littleton:

Q. You omitted Brown Brothers Harriman for the reasons stated in the footnote.

Will you give us the names of all the banks in Philadelphia County which you included in this table?

A. I can't give them from memory. I think I have the work sheets which would enable me to give them to you, yes.

Q. You say you do have them or you would have to get such work sheets?

A. I might have them here.

Yes, I have got that.

Q. Would you let us have them?

A. Shall I list them?

Q. Yes.

A. In addition, of course, to the two defendant banks which are already listed here, they are The First Pennsylvania Company, Provident Tradesmen's—I have got them [fol. 642] listed here by the short names. I don't have the full names.

Q. That's all right. We will understand.

A. I don't have the full names written out. I believe that will identify them.

Fidelity-Philadelphia, Central-Penn, Broad Street Trust Company, Liberty Real Estate, Frankford Trust Company, Industrial Trust Company, Second National Bank, Finance Company of Pennsylvania, Citizens and Southern, Pennsylvania Warehousing and Safe Deposit, Sonsitaly Bank and Trust Company.

That concludes the ones in Philadelphia.

Q. You didn't include the Marian Bank in Philadelphia?

A. Yes, I believe I did.

Q. You say you believe you did or did you?

A. I am quite sure I did, although it is not on this particular sheet.

Q. And not the Philadelphia office of the First Camden National?

A. No.

Q. Now, as long as you have your sheets there, could you tell us what banks you included in Montgomery County?

A. Yes. I did include the Marian Bank.

Q. Thank you.

A. It's not on this particular sheet, but it's on another.

[fol. 643] Q. Thank you.

A. Montgomery County, I don't have them listed here by county, but I can pick them out.

Bridgeport National Bank, Bryn Mawr Trust Company, Cheltenham National Bank, Collegeville National Bank—I am not sure of the pronunciation—Perkiomen——

Q. Perkiomen; that's good.

A. Perkiomen National Bank, Elkins Park National Bank, Harleysville National Bank, Jenkintown Bank & Trust Company, Montgomery County Bank & Trust Company, Peoples National Bank & Trust Company of Norristown, Security Trust Company of Pottstown, National Bank of Royersford, National Bank & Trust Company of Schwenkerville—of Schwenksville.

Q. Of which? I didn't get the last.

A. National Bank & Trust Company of Schwenksville.

Q. Schwenksville, yes.

A. Peoples National Bank of Souderton, Union National Bank & Trust Company of Souderton, and the Bank of Old York Road.

Q. Now, that takes care of Montgomery.

How about Bucks?

A. Bucks, yes.

Chalfont National Bank, Doylestown National Bank, Doylestown Trust Company, Morrisville Bank, Salebury National Bank of New Hope.

[fol. 644] Q. Solebury, I think.

A. Solebury—I can't read my own writing.

First National Bank & Trust of Newtown, Bucks County Bank & Trust Company, Quakertown National Bank, First National Bank of Riegelsville.

Q. How about Delaware County?

A. I have only one listed in Delaware County—Delaware County National Bank. That is the only one I seem to see here.

Q. Thank you very much.

Now, I notice that Mr. Price called your attention to the fact that G-7 and G-6 are dated June 15th, whereas your other tables up to that point were dated October 3rd.

I notice G-8 is dated June 30, 1960. What is the significance of that shift in dates?

A. Well, the significance is the source of the data. The Polk's Bank Directory, the September, 1960, edition, which was the latest edition of that publication that I had available at the time, took the reports as of June 30th, which is the end of a quarter.

These others were prepared from the statements of condition on the call date, as they call it, of the bank regulatory authorities, which was June 15th.

Q. Thank you.

[fol. 645] A. I believe that there are a very few instances in Polk's where June 30, 1960, data were not available and I used June 15th; and I have three or four notes to that effect in some of the smaller banks, where the June 15th instead of June 30th data were used.

Mr. Littleton: Thank you, Doctor.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 9, Table 9 entitled "Analysis of Commercial and Industrial Loans of Philadelphia National Bank as of October 5, 1955, by Location of Borrower."

(Document headed "Table 9," entitled "Analysis of Commercial and Industrial Loans of Philadelphia National Bank as of October 5, 1955, by Location of Borrower," was marked Exhibit G-9 for identification.)

By Mr. Reycraft:

Q. Dr. Gaffey, referring to Government's Exhibit No. 9, will you explain what the source of the data contained in this exhibit is?

A. Well, the source is a report—well, really, a compilation prepared by the Board of Governors of the Federal Reserve System. They made a special study of bank loans for commercial and industrial purposes which were outstanding as of that date and I was able to get a copy of that report and this analysis was prepared from that.

[fol. 646] Q. Dr. Gaffey, will you explain the purpose for which that study was made, if you know?

A. Well, it was a rather comprehensive study of——

By Mr. Littleton:

Q. Do you know, Doctor, of your own knowledge?

A. Well, I know on the basis which it was explained.

After the study was made it was reported in the Federal Reserve Bulletin and I read the articles or the article that explained it, their basis on which it was made and the conclusions and so on.

Q. This is purely hearsay; you just read it in some article; is that it?

A. Well, it was their official publication which explained what they did, what they concluded from it.

By Mr. Reycraft:

Q. This is the official report of the Federal Reserve Board, is it not, explaining the purpose of this study and the manner in which it was conducted?

A. Yes.

By Mr. Littleton:

Q. Do our figures appear in that study that you are talking about? Do the Philadelphia National Bank's figures appear in that study?

A. No. Specific figures for Philadelphia National Bank do [fol. 647] not appear. The study shows totals in many different classifications, but not figures for individual banks.

By Mr. Reycraft:

Q. Where did you get the figures?

A. I obtained a copy of the report which Philadelphia National Bank made to the Federal Reserve System. I believe it was supplied to the Government by the Philadelphia National Bank as part of the information for this case.

Mr. Littleton: Sir, then confine yourself to that in your testimony rather than referring to some article that you had nothing to do with.

Mr. Reycraft: I suggest that he is entitled to refer to an official publication of the Federal Reserve Board which explains the purpose for which this study was made; and that it is perfectly appropriate for him to do so in explaining the background of this study.

Mr. Littleton: Put the study in.

By Mr. Reycraft:

Q. Would you explain, Dr. Gaffey,——

Mr. Littleton: Excuse me. Where is the study?

By Mr. Reycraft:

Q. Will you give him the citation, Dr. Gaffey?

A. I don't have it here. I could obtain it for you.

It came out about sometime in 1957, I believe, in the Fed-
[fol. 648] eral Reserve Bulletin. I can obtain that article.

Mr. Reycraft: All right.

The Court: Let's pass along, because I would be interested to know, too, where it is.

If there is an official Government publication, let's get that first and then look at it and then maybe this will be more intelligible.

Mr. Reycraft: Yes, indeed, Your Honor.

Government's Exhibit 10 is also based upon the same study, so we will pass along from that.

Will you mark for identification as Government's Exhibit No. 11, Table 11——

The Court: We are within two minutes of the 12:30 deadline, suppose we continue with No. 11 at 2 o'clock.

(Recessed for luncheon at 12:28 o'clock P. M.)

[fol. 649] AFTER RECESS

The Court: I understand somebody wants to make a motion in this matter.

Mr. Edmund B. Spaeth, Jr: My name is Edmund Spaeth, appearing for Standard Pressed Steel Company.

Your Honor, the motion that I submitted to you is a motion under Rule 45(b), asking that the Court direct that certain items that the Government has subpoenaed Standard Pressed Steel to produce by tomorrow morning be deleted from the subpoena, for the reasons stated in the motion and that I am now in a position to supplement by a statement to the Court should the Court wish at this time.

Of course, I appreciate that Your Honor is right in the middle of the trial and that this may not be at all a con-

venient time for the Court to consider the motion or to hear statements from counsel. In fact, I will assume that it is not; but the rules require us to submit it promptly, and therefore I felt that we were obliged to appear before you and then to await your pleasure and instructions as to how the motion should be disposed of.

[fol. 650] The Court: I will recess this case this afternoon until tomorrow at 4:00 o'clock. You may appear then.

Mr. Spaeth: Very well, sir.

Mr. Reycraft: Your Honor, before we adjourned, there was a question raised with respect to the Federal Reserve bulletin issue which explains the survey on which Exhibit No. 9 is based in part. We have a copy of that bulletin. We will make additional copies for the defendant, and I ask Dr. Gaffey to identify it for the record now and explain where the information is contained in the Federal Reserve Bulletin.

The Witness: That is an article in the Federal Reserve Bulletin for April, 1956. It is entitled "Business Loans of Member Banks."

By Mr. Reycraft:

Q. Dr. Gaffey, referring to Table 9, will you describe the information which is contained in that exhibit?

Mr. Littleton: Excuse me, sir. Where is the exhibit?

Mr. Reycraft: Mr. Littleton, I just observed that we are going to make copies for you and we will give them to you as soon as possible.

[fol. 651] Mr. Littleton: May we take a look at that?

Mr. Reycraft: Oh, yes, indeed.

I might observe, Your Honor, that the data contained in Exhibit No. 9 is not based upon the Federal Reserve bulletin. It is based upon exhibits which were obtained from the banks and of which the banks have copies. These are the surveys of these particular banks, and this is the source of the information.

Mr. Littleton: If Your Honor please, in view of that statement, may I ask if either Mr. Reycraft or the witness will explain the legend at the foot of G-9, which says, "Source: Federal Reserve System, Survey of Bank Loans for Commercial and Industrial Purposes Outstanding on October 5, 1955."

By Mr. Reycraft:

Q. May I ask the witness if he will explain the footnote?

A. Yes. Well, as part of this survey of bank loans for commercial and industrial purposes, the Federal Reserve banks requested certain information from their member banks. It was actually based on a sample of about 30 per cent of the member banks, but the two defendant banks were [fol. 652] both included. All banks over a certain size were included in the sample——

By Mr. Littleton:

Q. What is your authority for that? Is that in the document that you are holding in your hand?

A. Yes, it is explained in that and also in the instructions which were given to the banks which responded to the survey.

Mr. Littleton: Might I ask if we can get some kind of identifying mark on the document the witness has in his hand.

Mr. Reycraft: The document which the witness has in his hand is Government's Exhibit 9. We will give the Federal Reserve bulletin dated April, 1956, an identification number of G-9-A.

(Federal Reserve Bulletin dated April, 1956, was marked Exhibit G-9-A for identification.)

And I would also like to identify at this point the schedules which were submitted by the defendant banks to the Federal Reserve Board in connection with this survey. The schedule submitted by the Philadelphia National Bank for 1957 we identify as Government's Exhibit 9-B.

(Schedule submitted by Philadelphia National Bank for [fol. 653] 1957 was marked Exhibit G-9-B for identification.)

Will you mark for identification as Government's Exhibit 9-C a schedule submitted in 1957 by the Girard.

(Schedule submitted in 1957 by Girard was marked Exhibit 9-C for identification.)

Will you mark for identification as Government's Exhibit 9-D a schedule submitted in 1955 by the Girard.

(Schedule submitted in 1955 by Girard was marked Exhibit G-9-D for identification.)

And will you mark as Government's Exhibit 9-E for identification a schedule submitted in 1955 by the Philadelphia National Bank.

(Schedule submitted in 1955 by the Philadelphia National Bank was marked Exhibit G-9-E for identification.)

By Mr. Reycraft:

Q. Dr. Gaffey, referring to Exhibit No. 9, will you describe the information contained in that exhibit.

A. This shows the commercial and industrial loans of Philadelphia National Bank which were outstanding as of October 5, 1955, in two classifications, loans of $1,000,000 [fol. 654] or more, and loans of less than a million dollars, and it shows the distribution of both classifications of loans, both as to number of loans and as to dollar value of loans, by geographical location of the borrower.

Q. With respect to the percentage of loans originating in the Philadelphia area, what does the exhibit show?

A. It shows, of the million dollar or more category, taking that first, 52.6 per cent of the value and 53.2 per cent of the number of loans originated in Philadelphia, and for the four counties—Philadelphia, Montgomery, Delaware, and Bucks—56.5 per cent of the value of such loans and 57.4 per cent of the number of such loans originated in the four counties.

Q. With respect to these loans of $1,000,000 or more, what does the exhibit show with respect to the counties beyond the 4-county area?

A. Well, there is a scattering beyond that. They took separately the other nearby areas, and, for example, 3.4 per cent of the value and 4.3 per cent of the number was in Chester County. Approximately the same proportion of the value and a slightly smaller per cent of the number was in all the other counties of Pennsylvania, that is, all except [fol. 655] Philadelphia, Montgomery, Delaware, Bucks, and Chester.

Then taking the five nearby counties of New Jersey, 3.3 per cent of the value of loans and 4.3 per cent of their number originated in those four counties of New Jersey. There were no loans in the million dollar or more in any other counties in New Jersey.

In New Castle, Delaware, which includes the City of Wilmington, 2.1 per cent of the value and the same proportion of the loans originated in that county, and there were none in other counties in Delaware.

Q. Now, with respect to loans of $1 through $999,999, what does the exhibit show?

A. It shows in Philadelphia itself 38.7 per cent of the value of the loans and 43.8 per cent of the number of such loans originated in Philadelphia. If you take the four counties combined, you get 51 per cent of the value of the loans and 68.1 per cent of the number of loans.

Q. And as you move out beyond the 4-county area, what does it show?

A. It is somewhat similar to the other category of the million dollar or more loans. It shows in Chester County, Pennsylvania, 3.7 per cent of the value of the loans and 1 [fol. 656] per cent of the total number were in that county. The rest of Pennsylvania accounted for 10½ per cent of the value and 6.2 per cent of the number of the loans.

Mercer, Burlington, Camden, Salem and Gloucester Counties, New Jersey, accounted for 4 per cent of the value of the loans outstanding and 2.3 per cent of the number of such loans. All of the other counties in New Jersey combined accounted for 4 per cent of the value and the same 4 per cent of the number of loans.

In New Castle County, Delaware, there were 2.1 per cent of the value of the loans and 4/10 of 1 per cent of the number of such loans. The rest of Delaware accounted for 1/10 of 1 per cent of both the value of such loans and of the number of such loans.

By Mr. Littleton:

Q. Loans of $1 through $999,999, are they absolute figures?

A. Why, yes, with this explanation. The instructions on the survey were that the responding banks were to report

all loans of $1,000,000 or more and one loan out of every six, or every sixth loan, of the loans of less than a million dollars.

[fol. 657] Q. So I ask you again, are the loans from $1 to $999,999 absolute figures?

A. They are a 1 in 6 sample, but they are the figures that were actually given in response to the survey.

Q. But they are based on a sample of 1 in 6?

A. They are based on a sample, 1 in 6.

Q. Where did you get these figures?

A. I got them from the report which the Philadelphia National Bank made to the Federal Reserve System as part of this survey.

Q. In other words, G-9-E——

A. I have forgotten the exact number. G-9-E is correct, yes.

Q. You said in answer to my question a few minutes ago that these figures with respect to the loans of $1 through $999,999 were based on samples. They were the sample, weren't they?

A. Yes.

Q. Not based on a sample. They are the figures of the sample, are they not?

A. Yes.

Q. So as to the number of loans, 822 means 1 out of every 6; is that right?

A. Yes.

[fol. 658] Q. And the total number of loans would therefore be how much, approximately?

A. Six times that number, approximately 5000.

Q. So that the legend at the foot of Table 9, which is here marked G-9, "Source: Federal Reserve System, Survey of Bank Loans for Commercial and Industrial Purposes Outstanding on October 5, 1955" is not exactly correct, is it? It should be the figures furnished by the Philadelphia National Bank to the Federal Reserve which appear here in this case as G-9-E; is that correct?

A. Yes.

Q. Do I understand that G-9-B contains similar figures for Philadelphia National Bank for the year 1957?

A. Yes.

Q. Did you make any table for presentation here based on G-9-B, which is two years later than the table which was used?

A. No.

Q. Why not?

A. Well, the surveys are generally similar but they are not identical. The information isn't available in the 1957 one to make this kind of tabulation, because the 1957 survey does not show the location of the borrower, which the 1955 [fol. 659] survey does show.

Q. You mean that G-9-B, which you hold in your hand there, does not have all the information on it for 1957 that G-9-E has for 1955?

A. Yes, that is correct.

Q. What else does it lack besides location of the borrower?

A. Well, I haven't compared them in great detail. When I discovered that the 1957 one did not have location of the borrower—and my principal purpose in preparing this table was to show a geographical distribution of borrowers by location—I then did not make a further detailed analysis of the 1957 survey. They are generally similar, though.

Q. Well, do you have anything more recent than 1955 showing location of the borrower?

A. Yes, we have some information submitted by the two defendant banks which we have compiled in later tables.

[fol. 660] Q. Do you mean of this same type of information that is in G-9?

A. Generally similar; it's not exactly identical.

Q. You are going to present that in addition to this; is that right?

A. Yes.

Q. When do you expect to present that, Dr. Gaffey?

A. Well, soon.

Mr. Reycraft: Today, I believe.

Mr. Littleton: I see.

By Mr. Littleton:

Q. At this time you expect to present that during this session?

A. Yes.

By Mr. Price:

Q. By "during this session" do you mean today?

Mr. Reycraft: If we get to it.

The Witness: I don't know whether it will be today. It is one of these in the series of tables that we have prepared.

By Mr. Littleton:

Q. May I ask you this—what is the difference between this and that which you are going to present later which makes it necessary to present one now and the other one at some time [fol. 661] in the future?

Mr. Reycraft: Mr. Littleton, may I suggest that we wait until the other exhibit is in evidence before you start comparing?

The Court: I think so. Let's not anticipate.

Mr. Littleton: All right.

The Court: Move along.

Mr. Reycraft: Will you mark for identification——

The Court: I notice one thing that everybody else seems to have ignored here. 31 per cent of the loans of $1,000,000 or more, approximately one third, were out of the four-county area that we are talking about. As a matter of fact, it is nearer to 40 per cent, perhaps.

Is that so?

By Mr. Reycraft:

Q. Dr. Gaffey, will you address yourself to that question?

A. Yes, sir. In the category of the very large loans of $1,000,000 or over, that's correct.

By the Court:

Q. As a matter of fact, over 40 per cent are outside the four-county area, and if you take in Chester County we are almost up to 45 per cent; is that right?

A. Yes.

[fol. 662] Q. Now let's go to the others. Almost 50 per cent are outside the four-county area, between $1 and $999,999? They are above 49 per cent; right?

A. Yes.

I might point out that in the very large loans, $1,000,000 and over, there isn't much difference between the proportion and the value of the loans and the number of loans.

In the other loans of less than $1,000,000 there is a difference; a considerably larger per cent of the number of loans is in the four-county area than of the value.

Q. In the four-county area, but in value they are about 51 per cent to 49 per cent?

A. Yes.

The Court: Go ahead, Mr. Reycraft.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 10 the document headed, "Table 10," "Analysis of Commercial and Industrial Loans of Girard Trust Corn Exchange Bank as of October 5, 1955, by Location of Borrower"?

(Document headed "Table 10," entitled "Analysis of Commercial and Industrial Loans of Girard Trust Corn Exchange Bank as of October 5, 1955, by Location of Borrower," was marked Exhibit G-10 for identification.)

[fol. 663] By Mr. Reycraft:

Q. Dr. Gaffey, with respect to Government's Exhibit No. 10, will you state the source of the information contained in that exhibit?

A. The source of data for this table was the report which the Girard Trust Corn Exchange Bank made to the Federal Reserve System in connection with this survey of bank loans for commercial and industrial purposes outstanding on October 5, 1955.

Q. Will you give the Government's exhibit for identification which is the document you refer to?

The Court: G-9-D?

The Witness: G-9-D; that's correct.

By Mr. Reycraft:

Q. Dr. Gaffey, with respect to Government's Exhibit No. 10, will you explain what is indicated in that exhibit?

A. Taking first loans of $1,000,000 or more, there were seven such loans out of twenty-three that were in the four-

county area. They accounted for 35.8 per cent of the value of loans and 30.4 per cent of the number of loans.

There were no such loans by this bank in Chester County, Pennsylvania. There were three in the rest of Pennsylvania, however, and they accounted for 16.4 per cent of the value and 13.1 per cent of the total number of loans.

[fol. 664] Taking the five near-by counties in New Jersey —Mercer, Burlington, Camden, Salem, and Gloucester— there were two loans in that area. They accounted for 8.6 per cent of the value of such loans and 8.7 per cent of the number of such loans.

There was one in the other counties of New Jersey. It accounted for, in round numbers, about 4 per cent of the value and 4 per cent of the number of loans.

There was one such loan in New Castle County, Delaware; it accounted for about 5 per cent of the value and about 4 per cent of the number of loans.

There were none in this category elsewhere in Delaware.

In all of the rest of the country there were nine such loans and they accounted for 30 per cent of the value and 39 per cent of the number of loans.

Q. Dr. Gaffey, with respect to loans outstanding of $1,000,000 or more by the Girard in 1955, how many such loans were outstanding in total of $1,000,000 or more?

A. There were only twenty-three.

Q. Now referring to loans from $1 to $1 less than $1,000,000, will you describe what appears in the exhibit?

—A. Well, this also, of course, was based on the one-in-six sample. On this basis, 265 of the 365 loans were in Phila- [fol. 665] delphia. They accounted for 63.8 per cent of the value of such loans and 72.6 per cent of the total number of such loans.

About thirty additional loans in Montgomery, Delaware, and Bucks Counties accounted for about 9 per cent of the value and about 8 per cent of the number. So, taking the four-county area, 72.6 per cent of the value of such loans, and 80.8 per cent of the number of such loans were in the four-county area.

There were none in Chester County, Pennsylvania. There were twenty-two such loans in other counties of Pennsylvania; they accounted for 9 per cent of the value and 6 per cent of the number.

In Mercer, Burlington, Camden, Salem, and Gloucester Counties, New Jersey, there were five such loans. They accounte- for .7 of 1 per cent of the value and 1.4 per cent of the total number of such loans.

In the rest of New Jersey loans in this category amounted to 1 per cent of the value and 2.2 per cent of the number of loans.

In New Castle County, Delaware, the loans in that area accounted for 2.7 per cent of the value, but only 0.8 per cent of the number.

In the rest of Delaware the loans accounted for .8 of 1 per [fol. 666] cent of the value and the same .8 of 1 per cent of the number of loans.

In all other areas, 13.2 per cent of the value and 7.9 per cent of the number of loans were shown.

Q. Dr. Gaffey, you testified that in 1955 the Girard had as of the date of the survey only twenty-three loans of $1,000,000 or more. How many are indicated for the Philadelphia National as of the same date, of $1,000,000 or more?

A. Forty-seven.

Q. So that both banks together at that time had only seventy loans outstanding of $1,000,000 or more?

A. That's what they reported.

Mr. Littleton: If Your Honor please, I understood Dr. Gaffey was simply identifying charts.

Are you making an argument now, adding up two charts?

Mr. Reycraft: He added two numbers, sir.

Mr. Littleton: He added two numbers.

I just suggest that we can add.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 11——

Mr. Littleton: Excuse me, Your Honor.

Mr. Price: May I ask the witness some questions?

[fol. 667] Mr. Reycraft: I beg your pardon.

By Mr. Price:

Q. Would the same comments you made with respect to Table No. 9 or Exhibit No. 9 apply to Exhibit No. 10 with reference to the samples and so on?

A. Yes. They were done in exactly the same manner.

Q. So that the figure is absolute for $1,000,000 or more, but the number of loans shown under $1,000,000 would be multiplied by 6?

A. Yes.

Q. Have you also later information about these data which are shown on G-10?

A. (No response.)

Q. More recent figures of loans of this amount?

A. There is some additional, more recent data which these two banks supplied to us, which we have compiled, yes.

Q. And is it your purpose to show the more recent data supplied by the Girard in another exhibit?

A. Yes.

Q. Similar to the one that you mentioned with reference to the Philadelphia National?

A. Yes.

Q. And as of what date were those data; do you remember?

A. Well, they are late 1960 and early 1961. I do not have [fol. 668] the exact dates.

I can find them for you.

Mr. Reycraft: May I suggest that you wait until this is offered, as we did the other?

Mr. Price: I didn't expect to ask him any more, other than as to the time of the data.

That's all.

Mr. Littleton: May I just ask one question to keep the record straight here, Doctor?

By Mr. Littleton:

Q. Do I understand that in your answer to Mr. Price all of the figures that you have given on loans of $1 through $999,999 as to number of loans should be multiplied by 6?

A. Well, I don't know whether they should be multiplied by 6, sir.

Q. Well, sir, let me——

A. The sample instructions from the Federal Reserve asked them to report every sixth loan, and I understand that's what they did.

Q. I understood you to say in direct examination that in the other counties of Pennsylvania there were only twenty-two such loans. Now, that isn't correct, is it?

A. They were twenty-two such loans shown on this table.

Q. Shown on this table?

[fol. 669] A. Out of 365 loans total shown on the table, yes.

Q. And that represents 1 in 6?

A. Yes. All the figures in that column represent 1 in 6.

Q. So that to get the real figure, to get the real number, we would multiply by 6?

A. You would get an approximate figure there. That is,——

Q. Well, what makes you think there is any doubt about it? You are producing the tables.

A. Well, the instructions to the respondent banks was to report every sixth loan, and that's what they did; and I classified them in these categories.

That does not mean that you would get an absolutely accurate number in each of these categories if you multiplied my numbers by 6. That is because of the sampling process you take every sixth loan and it is approximately accurate.

Q. So that what you are really saying——

A. But it would not necessarily be absolutely accurate in each of these small categories.

Q. And you don't know what the accurate figure would be?

A. No.

Q. But it would be greater than what is shown here?

A. Yes.

Mr. Reycraft: The figures are in the banks.

[fol. 670] Mr. Littleton: That's fine. I am asking what the doctor knows.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 11, Table 11, entitled "Number of Commercial Banks and Offices in the United States, 1900-1960."

(Document headed "Table 11," entitled, "Number of Commercial Banks and Offices in the United States, 1900-1960," was marked Exhibit G-11 for identification.)

Mr. Littleton: If Your Honor please, I would like to inquire at this point what the relevancy of this particular table is, the number of commercial banks and offices in the United States from 1900 to 1960.

Mr. Reycraft: Well, yes, it shows that from 1950 through 1960 there was a substantial decrease in the number of banks

in the country and from 1955 to 1960 a decrease in the number of banks in the country.

I think this is relevant to a case in which concentration of banking is one of the principal issues.

Mr. Littleton: This is in the United States, if Your Honor please.

The Court: Let's get the United States. Then let's cut it up.

By Mr. Reycraft:

Q. Dr. Gaffey, with respect to the number of commercial [fol. 671] banks in the United States, will you describe briefly what is contained in the Exhibit?

A. Well, this shows that the number of banks in the United States for each of the years shown, every ten-year period from 1900 through 1930, and then 1933 because that was somewhat of a landmark date, and then 1940, 1950, 1955, and 1960.

By Mr. Littleton:

Q. What is your source of these figures?

A. There was a special survey of branch banking in the Philadelphia area prepared by Prof. E. Gordon Keith of the University of Pennsylvania, and I took his figures as far as they——

Q. Excuse me?

A. —as far as they went, which is from 1900 to 1950; and then I compiled 1955 and 1960 from one annual report of the Federal Deposit Insurance Corporation, 1955, and the annual report of the Board of Governors of the Federal Reserve System in 1960.

Q. Is Dr. Keith's study an official Government publication?

A. No, but his source of information was an official Government publication, "Monetary Policy and the Management of the Public Debt," a volume prepared by the Joint Committee on the Economic Report of the 82nd Congress."

Q. Now, you know that from having read that in Dr. [fol. 672] Keith's report; is that right?

A. Well, I took the figures from Dr. Keith's report and he showed his source, which was this "Monetary Policy" study.

Q. Is Dr. Keith available?
A. So I showed both my source and his source here.
Q. Is Dr. Keith available?

Mr. Reycraft: He will be here tomorrow morning.
Mr. Littleton: All right.
Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 12 Table 12, which shows the number of commercial banking facilities in Pennsylvania as of December 31st of the years 1945, 1950, 1955, and 1959.

(Document headed, "Table 12," entitled "Number of Commercial Banking Facilities in Pennsylvania as of December 31 of the years 1945, 1950, 1955, and 1959," was marked Exhibit G-12 for identification.)

By Mr. Reycraft:

Q. Dr. Gaffey, referring to Government's Exhibit No. 12, will you describe the data contained in that exhibit?
A. This shows the number of commercial banks in Pennsylvania classified by unit banks and banks which operate branches; and it also shows the number of branches which they operate and the total number of banking offices, including head offices and branches.
[fol. 673] Q. What does it show with respect to the change in the number of banks in Pennsylvania?
A. It shows a decline in the number of banks in Pennsylvania from 1,026 in 1945 to 719 in 1959, which is the latest available data.
Q. What is the percentage of the decrease as shown by that table?
A. A 29.9-per-cent decrease from 1945 to 1959.
Q. What is the percentage of change in the number of unit banks?
A. Unit banks declined in number from 967 in 1945 to 526 in 1959; a decrease of 441, or a decrease of about 45.6 per cent.

By Mr. Littleton:

Q. Doctor, you omitted to tell us what it shows with regard to the total number of banking offices.
A. There has been an increase in the total number of banking offices from 1146 in 1945 to 1459 in 1959.

Q. A net change of 313?

A. Yes.

Q. And a percentage change——

A. 27.3-per-cent increase.

Q. And most of this data you also got from Dr. Keith's [fol. 674] report?

A. Well, my sources are shown here. I got the 1945, 1950, and 1955 figures from Dr. Keith's report; and I compiled the later data myself from the annual report of the Federal Deposit Insurance Corporation from 1959.

Mr. Reycraft: Will you mark for identification as Government's Exhibit 13 Table 13, which is a "Summary of Number of Commercial Banks and Banking Offices in Philadelphia, Delaware, Montgomery and Bucks Counties, Pennsylvania, as of December 31, 1947, June 30, 1956, and October 3, 1960"?

(Document headed "Table 13," entitled "Summary of Number of Commercial Banks and Banking Offices in Philadelphia, Delaware, Montgomery and Bucks Counties, Pennsylvania, as of December 31, 1947, June 30, 1956, and October 3, 1960," was marked Exhibit G-13 for identification.)

By Mr. Reycraft:

Q. Dr. Gaffey, referring to Government's Exhibit No. 13, will you describe the data shown in that exhibit?

A. This shows the number of banks in this area and it shows the number of offices, the number of branch offices which they operate, and also the total number of banking offices in Philadelphia and then in Delaware, Montgomery, and Bucks Counties combined, and then in the four counties.

[fol. 675] Q. What does it show with respect to the change from 1947 to 1960?

A. In Philadelphia, the number of banks with head offices in Philadelphia declined from 39 in 1947 to 17 in 1960, or a decrease or 22 banks of 43.6 per cent.

In Delaware, Montgomery, and Bucks Counties, the number of banks with head offices in those counties were 69 in 1947, and that number has decreased to 26 in 1960; a decline of 43 banks or a decrease of 62.3 per cent.

The information is not complete, that is, the distribution of the few information between Philadelphia and the other

counties is not complete as to branch offices, but I have the total number of branch offices in the four counties, which increased from 70 in 1947 to 240 in 1960, an increase of 170 or 242.9 per cent.

Q. And these branches were distributed among how many banks?

A. They were distributed among the number of banks that is shown in the columns in rows immediately above. That is, in 1947 there were 108 banks in the four counties, joint-combined figures. There were 108 banks in the four counties and they had 70 branch offices. In 1960 there were 43 banks and they had 240 branch offices.

Mr. Littleton: No questions.

Mr. Reycraft: Will you mark——

[fol. 676] By Mr. Price:

Q. Dr. Gaffey, why do you say the number of branch offices is not available for 1960?

A. I didn't intend to answer that, sir. What I intended to say was that I did not have available a distribution of those branch offices in 1960 between Philadelphia and these other counties, and I didn't have the time to try to count them; so I showed the combined figure only.

Q. And where did you get the combined figure?

A. The combined figure came from the reports here. In 1960 the combined figure was from the report by the Board of Governors of the Federal Reserve System to the Comptroller of the Currency with reference to this proposed merger, and that report did not show a county breakdown of those branch offices.

Q. And you made no effort to get those figures, to separate Philadelphia from the other counties?

A. Well, I didn't have time.

Q. Well, did you?

A. I didn't have time in the amount of time I had available and the number of things I had to do. I wasn't able to do that.

Q. The answer is no, then?

A. Yes.

Mr. Price: All right. That's all, thank you.

[fols. 677-678] By Mr. Littleton:

Q. Did you make any study of any other financial institutions, the number of mutual savings banks and branches in these counties?

A. No.

Q. Federal Savings and Loans?

A. No.

Q. State Savings and Loans?

A. No.

Q. In other words,——

A. I have seen some figures in some of those categories, but I made no special studies.

Q. Did the Keith report talk about them?

A. There is some information in the Keith report concerning some of those categories.

Q. But you didn't think that was necessary to be shown in your chart that you were making up?

A. No.

Q. You were confining yourself just to commercial banks?

A. Yes.

Mr. Reycraft: Will you mark for identification as Government Exhibit No. 14 Table 14 which is entitled "Major Structural Changes Affecting the Number of Commercial [fol. 679] Banks and Commercial Bank Offices in the United States, by Years 1940, 1945 Through 1956 and 1960."

(Document headed "Table 3," entitled "Major Structural Changes Affecting the Number of Commercial Banks and Commercial Bank Offices in the United States, by Years 1940, 1945 Through 1956 and 1960", was marked Exhibit G-14 for identification.)

Mr. Littleton: If Your Honor please, for the record, I again make my objection to this on the ground of relevance. This is all the United States.

Mr. Reycraft: My position is the same, Your Honor, that I think this total trend is relevant and we are going to go into the Philadelphia area in detail.

The Court: All right.

By Mr. Reycraft:

Q. Mr. Gaffey, will you refer to Government Exhibit No. 14 and describe the data which are contained in that exhibit?

A. This table shows the net change in number of banks, in commercial banks, in the United States, for the years [fol. 680] shown, and the sources of such changes by these columnar headings. It shows the number of new banks established in the country in each of those years, the number of new branches established in each of those years, the number of banks which were consolidated or absorbed by other banks in each year, the number of banks which were suspended, and the number which were liquidated voluntarily; and the net change, both in number of banks and also the net change in the number of branches in each such year.

Q. Dr. Gaffey, will you refer to the information on consolidations and absorptions and indicate the number in each year from 1950 to the extent that it is shown on the table.

A. In 1950 there were 91 banks consolidated and absorbed; in 1951, 82; 100 even in 1952; 115 in 1953; 206 in 1954; 231 in 1955; 189 in 1956, and 131 in 1960.

Mr. Reycraft: No further questions.

By Mr. Littleton:

Q. This again is based principally on Dr. Keith's survey; is that right?

A. It's based on Dr. Keith's survey up to 1956, and I compiled the data for the latest available year, 1960, and put it in comparable form.

[fol. 681] Q. Next will you look at the line 1960, Doctor? You have new banks 135, consolidations and absorptions 131, suspensions, 2; net change minus 2 or plus 2?

A. Well, it shows minus 2 here, but——

Q. What do you think?

A. I am not sure now.

Q. Which do you want to make it, minus 2 or plus 2?

A. It looks like it should have been a plus 2.

Q. All right.

[fol. 682] Mr. Reycraft: I mark for identification as Government's Exhibit No. 15, Table 15, entitled "Summary of Savings and Time Deposits of Girard Trust Corn Exchange Bank by Location of Depositors."

(Document headed "Table 15," entitled "Summary of Savings and Time Deposits of Girard Trust Corn Exchange

Bank by Location of Depositors" was marked G-15 for identification.)

Q. Dr. Gaffey, referring to Government's Exhibit No. 15, will you describe the data which is contained in that exhibit.

A. This shows the savings deposits and the time deposits of Girard by the location of the depositors, with several classifications, of which the most numerous is the savings fund accounts, which are shown on the top line there. It shows that 116,412 of such accounts, out of a total number of 119,519, came from Philadelphia, Delaware, Montgomery, and Bucks Counties, Pennsylvania.

Q. What is the percentage of such accounts in the 4 county area, Dr. Gaffey?

A. 97.4 per cent of the savings fund accounts, that is, the ones under $10,000, came from these four counties.

Q. And what percentage of Christmas Club accounts come within the 4-county area?

[fol. 683] A. It is the same percentage, 97.4.

Q. How about vacation club accounts?

A. 97.5 per cent of them came from these four counties.

Q. How about time accounts and certificates of deposit?

A. 75 per cent of those accounts came from the four counties.

Q. And what does the data show with respect to time accounts over $10,000?

A. 85.2 per cent of the accounts and 82.8 per cent of the dollar volume of such accounts came from the four counties of Pennsylvania.

Q. Dr. Gaffey, I believe that I directed your attention to the previous line with respect to time accounts over $10,000.

A. I am sorry; I didn't understand the question.

Q. You are right. I am sorry. 85.2 per cent of the number and 82.8 per cent of the volume.

A. Yes.

By Mr. Price:

Q. Dr. Gaffey, on the line relating to time accounts and certificates of deposit you have a percentage for other Pennsylvania areas that is not available and yet you have a total. It either was available or your total was inaccurate. [fol. 684] Which is the fact?

A. I don't believe either, sir. We have the total which was supplied, but we don't know how much of the difference between these four counties and the total is elsewhere in Pennsylvania and how much of it is in all other areas.

Q. So that means it is unavailable as to Pennsylvania compared with outside of Pennsylvania, other than as to the difference between the Philadelphia total and the Montgomery and Bucks and elsewhere?

A. I am sorry. I don't follow that completely.

Q. Well, you have the total for the four counties of 15 per cent.

A. 15 in number, 75 per cent.

Q. 75 per cent, 15 in number?

A. Yes.

Q. And the total for everything is 20 in number and a hundred per cent?

A. Yes.

Q. Where is the 5 and where is the 25 per cent to go; do you know?

A. I don't know. It wasn't shown in the data that was supplied to us.

Q. Was it divided between other Pennsylvania and all other areas in some manner?

[fol. 685] A. In some manner, yes.

By Mr. Reycraft:

Q. Dr. Gaffey, isn't it a fact that this compilation was based on data given to us by the defendants in the form in which they gave it to us? In other words, did the data they gave us contain the breakdown Mr. Price is asking you for?

A. I think the answer to your question is yes. We showed all the breakdowns in this table that the data which Girard gave us show.

Q. And with respect to time accounts and certificates of deposit, where the exhibit indicates that the information is not available, does this mean that the breakdowns of these categories was not supplied with respect to time accounts and certificates of deposit?

A. Yes.

By Mr. Price:

Q. You understood, did you not, Dr. Gaffey, that the numbers under $10,000 were estimates rather than actual figures, estimates by Girard's officers?

A. Which figures are you talking about now, sir?

Q. Time and savings accounts under $10,000.

Mr. Reycraft: I think we have to rely on the statement for that.

[fol. 686] Mr. Price: The exhibit doesn't show it is estimates. I was asking Dr. Gaffey whether that was so.

The Witness: I would have to go to the source to ascertain that.

Mr. Price: Will you do that and satisfy yourself if my statement is correct.

The Witness: Yes.

Mr. Price: Thank you.

The Court: Let us take a 10-minute break at this point.

(A 10-minute recess was taken at 3:00 o'clock P.M.)

Mr. Reycraft: Your Honor, before resuming with the next exhibit, I would like to observe that with respect to Exhibit 15 I believe we have a list of the names of the persons from the bank who made the estimates. Will you furnish us with a list, Mr. Price?

Mr. Price: I will look at the sheet and see.

Answering your question, Mr. Reycraft, the material submitted in response to your inquiry was a memorandum which was signed, but it does not indicate who actually made the various estimates.

Mr. Reycraft: Who signed the memorandum?

[fol. 687] Mr. Price: Signed Richard W. Maletz per S. S. Gardiner.

Mr. Reycraft: And he is an employee of your bank?

Mr. Price: Oh, yes, but my point was that the material supplied was an estimate, and Dr. Gaffey showed it as an absolute figure.

Mr. Reycraft: Based on an estimate submitted by the bank.

Mr. Price: Oh, yes, no question about that, but it was an estimate and not an absolute calculation.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 16, Table 16, entitled "'Concentration of

Assets of Insured Commercial Banks in Philadelphia, Delaware, Montgomery and Bucks Counties, Pennsylvania in 1947, 1950, 1956 and 1960, and Effect of Proposed Merger Upon Such Concentration of Assets."

(Document headed, "Table 16," entitled "Concentration of Assets of Insured Commercial Banks in Philadelphia, Delaware, Montgomery and Bucks Counties, Pennsylvania in 1947, 1950, 1956 and 1960, and Effect of Proposed Merger Upon Such Concentration of Assets" was marked Exhibit G-16 for identification.)

[fol. 688] By Mr. Reycraft:

Q. Dr. Gaffey, referring to Table 16——

The Court: Just a minute. What do you mean by concentration of assets?

Mr. Reycraft: The percentage distribution, Your Honor. That is the percentage attributed to the largest bank, the two largest banks, and the four largest banks.

The Court: You are talking percentages?

Mr. Reycraft: Yes, statistical concentration.

The Court: All right.

By Mr. Reycraft:

Q. Dr. Gaffey, will you describe the data contained on this exhibit.

A. Well, for each of the dates shown, December 31, 1947; June 30, 1950; June 30, 1956; and June 30, 1960, it shows the four largest banks in this trade area and the assets of each of the four largest banks in millions of dollars, and then the same thing is shown on June 30, 1960, on the basis of how it would have been if the Philadelphia National Bank and Girard had been combined.

By the Court:

Q. As of the particular date?

[fol. 689] A. Yes. All figures are as of the dates shown. The only difference between the last row of figures and the next to the last row group is that both are June 30, 1960, but the upper June 30, 1960, is as the figures actually were. The

lower is as they would have been if Philadelphia National Bank and Girard Trust Corn Exchange Bank had been combined on that day.

By Mr. Reycraft:

Q. Dr. Gaffey, what was the percentage of assets held by the largest bank in Philadelphia as of December 31, 1947?

A. The largest bank in Philadelphia had 23 per cent of the total assets of banks in Philadelphia at that time.

By Mr. Littleton:

Q. Of what banks in Philadelphia?

A. All the commercial banks in Philadelphia.

Q. All the commercial banks geographically located in Philadelphia; is that what you meant?

A. All the commercial banks having headquarters in Philadelphia, yes.

Q. Does that include First Camden?

A. No.

Q. Does it include Brown Brothers?

A. No.

[fol. 690] Q. Does it include Second National?

A. Yes.

By Mr. Reycraft:

Q. What would have been the percentage in 1960 if these two banks were combined?

A. 39.3 per cent. That is, the two banks, if they had been combined as of June 30, 1960, would have had 39.3 per cent of the assets of all insured commercial banks having headquarters in Philadelphia.

Q. What was the percentage of the total of the four largest banks in December of 1947?

A. 56.5 per cent in Philadelphia.

Q. And what was the combined assets of Philadelphia National and Girard as of June 30, 1960?

A. On June 30, 1960, Philadelphia National and Girard had combined assets of $1,844,000,000.

Q. And what percentage of the total?

A. On a combined basis they had 39.3 per cent. The Philadelphia National and Girard combined had 39.3 per cent.

Q. What would the four largest banks have on June 30, 1960, if the two banks were combined?

A. If Philadelphia National and Girard were combined as of June 30, 1960, the four largest banks would have had [fol. 691] 85.4 per cent of the assets of insured commercial banks with headquarters in Philadelphia.

Q. And moving out into the 4-county area, what percentage of the total of the assets was held by the four largest banks on December 31 of 1947?

A. 49.1 per cent.

Q. And on June 30, 1960, if the two banks were combined?

A. If the two banks had been combined as of June 30, 1960, the four largest banks would have had 77.6 per cent of the assets.

By Mr. Littleton:

Q. Have you made any comparable study of any other cities in the United States?

Mr. Reycraft: May I note an objection here. To the extent that the answer to the question is public information, I have no objection; but Dr. Gaffey, as I have observed earlier, is working on a number of matters in the department which are not public information.

A. Well, the answer is yes.

By Mr. Littleton:

Q. How many?

A. I think about four.

Q. What are their names?

[fol. 692] Mr. Reycraft: Unless it is a pending case, I object. I ask Your Honor to permit Dr. Gaffey to restrict his answer to pending matters.

Mr. Littleton: It seems to me that it is public information. I can't see the objection.

Mr. Reycraft: The matters that Dr. Gaffey is working on are not public information. He is working on a case in Lexington, Kentucky, and as far as I am concerned, I have no objection to his answering in respect to that case.

By Mr. Littleton:

Q. Have you made any study of Birmingham, Alabama?
A. No.
Q. Norfolk, Virginia?
A. No.
Q. Toledo, Ohio?
A. No.
Q. Dayton, Ohio?
A. No.
Q. Pittsburgh, Pennsylvania?
A. No.

Mr. Reycraft: I object, Your Honor.
The Court: Overruled.
Mr. Littleton: Boston, Massachusetts?

[fol. 693] A. No.
Q. Knoxville, Tennessee?
A. No.
Q. Columbus, Ohio?
A. No.
Q. Buffalo, New York?
A. No.
Q. Akron, Ohio?
A. No.
Q. Rochester, New York?
A. No.
Q. Memphis, Tennessee?
A. No.

Mr. Reycraft: Your Honor, may I be heard on this matter? This is an indirect way, it seems to me, of Mr. Littleton finding out what cities Dr. Gaffey may be working on in connection with inter-departmental matters.

The Court: I think he has gone about far enough.
Mr. Reycraft: I think he has established his purpose.
The Court: He has established a lot of negatives.

By Mr. Littleton:

[fol. 694] Q. I take it that your answer to me on the Philadelphia County is also your answer as to the four-county area, that the base figure from which you get these percent-

ages is the aggregate of the banks, the commercial banks, geographically located in the four counties?

A. With their headquarters in one of the four counties, yes.

Q. Not taking into consideration banks outside the four counties which come in and do banking business in the counties?

A. I have not taken into consideration any such banks if their headquarters are located outside of the four counties.

Q. When you say "headquarters" you mean main office?

A. Main office, yes.

Q. And as I understand it, because you say commercial banks, you have not included in this figure any of the competing financial institutions of either of these banks?

Mr. Reycraft: I object to the word "competing."

Q. Other than commercial banks?

A. This is limited to commercial banks.

By Mr. Price:

[fol. 695] Q. Dr. Gaffey, you said that all of the information that appears on this Exhibit G-16 came from Table A-X of Dr. Keith's report.

A. No, the data for 1947, 1950, and 1956 came from Professor Keith's report, and the June, 1960, data I compiled from Polk's Bank Directory, September, 1960, edition.

Q. Do you know whether the figures for the Philadelphia banks included the branches of those banks located outside of Philadelphia or not?

A. Yes, I believe they did. May I explain that a little bit?

Q. Yes, sir.

A. Well, I took the assets for the bank as a whole, without any attempt to allocate assets of the bank as between where its branches might be. The assets as they are reported in both of these, both of these sources, the assets are shown for the bank as a whole, and there is no allocation of assets of any bank among any branches it may have.

Q. Have you got that table from the Keith report in front of you?

A. No, I haven't.

Q. Is it readily available?

[fol. 696] Mr. Reveraft: Will you mark for identification the document I am about to hand Dr. Gaffey as Government's Exhibit 16-A. This document is entitled "Survey of Branch Banking in the Philadelphia Area." On the cover appears the title "Joint Branch Bank Survey Report for Release on Sunday, January 12, 1958." It was produced by the First Pennsylvania Company in response to Subpoena Item 5, Part No. 1 of 7.

(Book entitled "Survey of Branch Banking in the Philadelphia Area" was marked G-16 A for identification.)

By Mr. Price:

Q. Have you got it in front of you?

A. Yes.

Q. I recognize where the percentages of total come from for the years 1947 and 1950, but in Table A X, under the headings "Total Assets in Philadelphia" and "Total Assets in Philadelphia and Contiguous Counties," I am unable to translate those figures into anything on your Exhibit G-16. Can you tell me how it can be done?

A. I will try. I can try to reconstruct here how it was done. It shows, for example, the largest bank on June 30, 1956, was the First Pennsylvania Company, and it shows its total assets on June 30, 1960. Then the next largest bank, [fol. 697] their total assets were $1,039,000,000. Then the second largest bank on June 30, 1956, was Philadelphia National Bank, and their total assets as of that time were $983,000,000. So the total assets of the two largest banks were the sum of those two figures, or $2,022,000,000.

Q. You are way ahead of me. June 30, 1956, you show total assets in Philadelphia as $4,142,000 on Table A X.

A. I am sorry. What was that figure again?

Q. $4,142,000. Where does that appear on G-16?

A. Well, now, I don't find the figure that you are referring to.

Q. June 30, 1956, the first largest bank, total assets in Philadelphia.

A. Yes.

Q. $4,142,000. It is the third line down.

The Court: Aren't you talking about $4,000,000,000?

Mr. Price: Yes, sir, $4,142,000,000.

The Court: Isn't that the sum of the total assets of all the banks?

Mr. Price: The total assets in Philadelphia.

The Witness: That figure is not on my table. I find the [fol. 698] figure in Keith's table. I do not find that figure on my table.

By Mr. Price:

Q. Well, I was wondering what the relationship of the figure in the Keith table was to any figure or figures in your table.

Mr. Reycraft: May I make a suggestion?

Mr. Price: Yes.

Mr. Reycraft: It appears to me that the figure you are referring to on A-X is the total of all banks, and the figure that you are drawing Dr. Gaffey's attention to on Table 16 is the four largest, so that it would be less than the total.

The Witness: It would be 75.5 per cent of that total, yes.

Mr. Gaffey: So that $3,027,000 would be 73.1 per cent of $4,142,000.

By Mr. Price:

Q. Well, you made calculations, then, apparently without including on your Table G-16 the two items that are on A-X and entitled "Total Assets in Philadelphia" and "Total Assets in Philadelphia and Contiguous Counties"; is that correct?

[fol. 699] A. Well, I don't believe it is. I used the figure the total assets, but I did not reproduce that figure in my table, but my treatment of June 30, 1956, is the same as the treatment of all the other dates. That is, I used the base figure on which the percentages were based, but I did not reproduce the base figure of the total assets of all the banks in Philadelphia or the total assets of all the banks in the four counties. That is, the figure that you referred to, the $4,142,000,000 which appears for total assets in Philadelphia in the Keith report does not appear in my report, but the comparable figure for the other dates does not appear there either, and it was used. That is, the 25.1 per cent, for ex-

ample, the first percentage, is the per cent which the total assets of the largest bank in Philadelphia is of the total assets of all the banks in Philadelphia; and, similarly, the 48.8 per cent is the percentage that the two largest banks are of the total assets of all the banks in Philadelphia, and so on.

Q. But you don't show on G-16 what the total assets are, and therefore it is necessary to refer to the Keith table in order to determine the accuracy of your percentage calculations; isn't that right?

A. For some of them, yes. Wherever possible, where it [fol. 700] was computed, I took the percentage which Keith had already computed. That is, the 25.1 per cent, for example, is Keith's percentage and not mine. I can show you how he got it. I could arrive at it the same way. The 48.8 per cent and the 73.1 per cent are similar, and the same is true of the 22.2, I believe—yes, the 22.2—and so on.

[fol. 701] Q. Then, in order to determine the total assets of which these first two largest and four largest banks are related, you must go to the Keith report because your exhibit doesn't show that total figure?

A. Yes. That's right.

Q. Then I understand that the word "concentration" in the title "Concentration of Assets," is merely a description of an arithmetical fact and not an argument as to whether it is good or bad or large or small?

It merely states the figures, does it not?

A. Well, concentration is a term that is quite widely used among economists or economic writers. It does show something about whether figures are large or small.

It does not necessarily show whether they are good or bad.

Q. Well, "large" is likewise a relative term?

A. Yes.

Q. But so far as your table is concerned, this purports merely to show the accurate arithmetical facts with reference to the volume of deposits held by the largest bank as compared with all the banks in Philadelphia—I mean assets, not deposits; is that correct?

A. Yes.

[fol. 702] Q. I don't want to get into a discussion with you about concentration if my last question is correct.

A. Well, it was a sort of a long one.

Will you read it back to me then, please, again?

The Court: Mr. Price, the attorney for the Government, has defined concentration as percentages.

When you go into that part of it, don't you think you ought to leave it alone?

Mr. Price: Yes, sir. If counsel has agreed to it, I won't ask the witness any more.

Mr. Reycraft: Will you mark as Government's Exhibit 17 Table 17 entitled "Summary of Loans and Lines of Credit of Girard Trust Corn Exchange Bank Outstanding on September 21, 1960 by Location of Borrower."

(Document headed "Table 17," entitled "Summary of Loans and Lines of Credit of Girard Trust Corn Exchange Bank Outstanding on September 21, 1960, by Location of Borrower" was marked Exhibit G-17 for identification.)

By Mr. Reycraft:

Q. Dr. Gaffey, what was the source of the information [fol. 703] which you used to compile Table No. 17?

A. This information was compiled from information which was supplied to the Government by the defendants, in this particular case by Girard Trust Corn Exchange Bank, in response to certain questions which the Government submitted to the defendant; and there was some modification of the original request and some statement as to the form in which the bank would supply the information.

Q. Were your calculations based on what with respect to loans? That is, how many loans are included in your calculations?

A. Well, the numbers aren't shown here. We asked them for the hundred largest loans and it turned out that there were three that were the same size, so that of the smallest of that group three were of the same size; so the tabulation was actually made on the basis of 103 largest loans, and that was a complete tabulation of it and these were loans outstanding by Girard on September 21, 1960.

Q. And these are only the largest loans; is that correct?

A. Yes.

Q. With respect to the lines of credit, what was the [fol. 704] basis of the information you used?

A. Well, it was similar. The Girard Trust Corn Exchange Bank supplied, in response to our request, information showing the hundred largest lines of credit which they had outstanding as of that date, and we compiled them on the basis of this distribution of location.

Q. Now with respect to the loans which you sampled, the 103 largest loans, what do the data show with respect to the percentage of them originating in Philadelphia and in the 4-county area?

A. It shows 44.7 per cent of this group of loans and 42.1 per cent of the dollar volume of such loans originated in Philadelphia; and going to the total of the four counties, there was approximately 7 per cent of each, of the number of loans and the dollar volume, in Delaware, Montgomery, and Bucks Counties; and so that for the four counties as a whole, 51.5 per cent of the number of loans and 48.8 per cent of the dollar volume was in these four counties.

Approximately ten per cent of both the number of loans and the dollar volume was elsewhere in Pennsylvania, and the remainder was in all other areas.

[fol. 705] Q. Now with respect to the hundred largest lines of credit, what did your studies show?

A. The figures are quite similar. It showed 47 per cent of the number of these lines of credit and 51.2 per cent of their dollar volume was in Philadelphia; about 9 per cent of both the number and the dollar volume was in Delaware, Montgomery, and Bucks Counties; so in total, in the four counties, 56 per cent of the lines of credit and 60.5 per cent of the dollar volume of those lines of credit were in these four counties.

10 per cent of the number of such lines of credit and 8.3 per cent of the dollar volume of them were elsewhere in Pennsylvania and the remainder was elsewhere in the country, or any place else.

Q. What did your studies show with respect to the loans of $50,000 or more?

A. 52.6 per cent of the number of such loans and 48.3 per cent of their dollar volume were in Philadelphia. 16 per cent of their number and about 11 per cent of the dollar volume was in Delaware, Montgomery, and Bucks Counties; so that for the four counties as a whole, taking all loans of $50,000

or more, 68.9 per cent of the loans and 59.1 per cent of the dollar volume were in the four counties.

[fol. 706] About 10 per cent of the number and 10.7 per cent of the dollar volume were elsewhere in Pennsylvania and about 21 per cent of the number and about 30 per cent of the dollar volume were elsewhere.

Q. What did your studies show with respect to all lines of credit of $50,000 or more?

A. About half was in Philadelphia on both the number of loans and the dollar volume. About 10 per cent was in Delaware, Montgomery, and Bucks Counties. The totals for the four counties were 60.6 per cent of the number of such lines of credit and 58.5 per cent of the dollar volume.

9.3 per cent both of the number and the same percentage of the dollar volume was elsewhere in Pennsylvania and the remainder, consisting of 30 per cent of the number of lines of credit and 32 per cent of the dollar volume was elsewhere.

Mr. Reycraft: That's all.

By Mr. Price:

Q. So that the sum of the numbers of loans under the headings "Other Pennsylvania" and "All Other Areas" represents the number of loans outside of the four-county area; is that correct?

[fol. 707] A. Yes.

Q. And the percentages correspondingly?

A. Yes.

Q. And you haven't added those together, but the addition will produce that result, will it not?

A. Yes.

Q. I understand that you received all the basic figures, both as to numbers and amounts, from the Girard in response to a question?

A. Yes.

Q. And the only thing that you did was to calculate the various percentages which you have shown on this exhibit; is that correct?

A. Figure the amounts and the percentages, yes.

Q. But I thought the amounts were given to you.

A. The amounts were given to us, but not by these categories. They were given to us in long lists and I compiled

them or had them compiled under my supervision by the geographic areas.

Q. Well, the data were shown, were they not, which enabled you to determine that there were 46 loans in Philadelphia and 7 in Delaware, Montgomery, and Bucks Counties?

[fol. 708] A. Yes.

Q. Those data or information you got from the Girard?

A. Yes.

Q. And the calculations you made, therefore, were just as to percentages; the allocations may have been your own, but the new calculations were the percentages?

A. That's correct.

Mr. Price: That's all.

Mr. Reycraft: We will skip Exhibit No. 18 at the moment, with Your Honor's permission. There is not a copy available for the defendants. It just came in this morning.

We go on to Exhibit No. 19, and I would like to have marked for identification as Government's Exhibit No. 19 Table 19, which is entitled "PNB and Girard Only Commercial Loans Under $50,000 or More—(Category #5 on Call Report)".

(Document headed "Table 19" entitled PNB and Girard Only Commercial Loans Under $50,000 or More (Category #5 on Call Report)" was marked Exhibit G-19 for identification.)

By Mr. Reycraft:

Q. Dr. Gaffey, what was the source of the information that you used in compiling this table?

[fol. 709] A. This was also compiled from information which was submitted to the Government by Philadelphia National Bank and Girard in response to questions which the Government submitted to these banks on the dates indicated here—on April 21, 1960, with some modification on May 2, 1961.

Mr. Littleton: May I ask because it is not on the exhibit, does this mean by copy of borrower or geographical location of borrower?

By Mr. Reycraft:

Q. Would you answer the question, Dr. Gaffey?

A. Yes. These figures are on the basis of the geographical location of the borrower.

Mr. Littleton: Thank you.

By Mr. Reycraft:

Q. Dr Gaffey, what did your analysis of the underlying data show with respect to these loans of $50,000 or more?

A. Taking the Girard first, 55 per cent of the number of loans and 50.7 per cent of the dollar volume of these loans were in Philadelphia. The percentages in Delaware, Montgomery, and Bucks Counties were 14 per cent of the number and 11 per cent of the dollar volume; so that on a combined basis in the four counties 69.1 per cent of the number of loans and 61.9 per cent of the dollar volume was in these four [fol. 710] counties.

Elsewhere in Pennsylvania accounted for 12.1 per cent of the number of loans and 13 per cent of the dollar volume. All other areas accounted for 18.8 per cent of the number of loans and 25.1 per cent of the dollar volume.

Q. And with respect to Philadelphia National, what does your analysis show?

A. The figures are a little different, but the net result is not greatly different. Their percentages were 40.7 per cent of the number of loans and 38 per cent of the dollar volume was in Philadelphia. However, 22.8 per cent of the number of loans and 14.2 per cent of the dollar volume was in Delaware, Montgomery, and Bucks Counties; so that the combined totals for the four counties for Philadelphia National Bank were 63.5 per cent of the number of loans and 52.2 per cent of the dollar volume.

Elsewhere in Pennsylvania accounted for 10.9 per cent of the number of loans and 9.5 per cent of the dollar volume. All other areas accounted for 25.6 per cent of the number of loans and 38.3 per cent of the dollar volume of loans.

By Mr. Littleton:

[fol. 711] Q. So that, Doctor, outside of the four-county area in the case of the Philadelphia National Bank, the

number of loans amounted to 36.5 per cent of all loans $50,000 or more; is that correct?

A. Yes.

Q. And the dollar volume of all loans outside the four-county area, amounting to $50,000 or more, is 47.8 per cent?

A. Yes.

Q. Is that correct?

A. Yes.

Q. Almost 50 per cent of the loans are outside the four-county area; is that correct?

A. Yes.

Mr. Littleton: That's all.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 20, Table 20,—I am informed that the defendants now have a copy of Exhibit 18.

May I inquire whether Exhibit 18 is in Your Honor's set of the exhibits?

The Court: Yes, I have it.

Mr. Reycraft: Government's Exhibit No. 18 is entitled, "Table 18," and "Summary of Loans and Lines of Credit of [fol. 712] Philadelphia National Bank Outstanding on September 21, 1960, By Location of Borrower."

(Document headed "Table 18," entitled "Summary of Loans and Lines of Credit of Philadelphia National Bank Outstanding on September 21, 1960, by Location of Borrower" was marked Exhibit G-18 for identification.)

By Mr. Reycraft:

Q. Dr. Gaffey, what is the source of the information on which you relied in preparing Exhibit 18?

A. This was prepared on the basis of information which was supplied to the Government by the Philadelphia National Bank in response to questions submitted to that bank by the Government on April 28, 1961, as modified on May 2, 1961.

Q. Does Exhibit No. 18 contain data comparable to that in Exhibit No. 17 for Girard, except that Table 18 applies to Philadelphia National?

A. Yes.

Q. What did your analysis of the data show with respect to the hundred largest loans of the Philadelphia National Bank?

A. It shows 39 per cent of the number of loans and 36.1 per cent of the dollar volume of these largest loans are in Philadelphia, Delaware, Montgomery, and Bucks Counties. [fol. 713] 7 per cent of the number of loans and 5.6 per cent of their dollar volume is elsewhere in Pennsylvania.

Q. With respect to the 107 largest lines of credit, what does your analysis show?

A. Approximately 42 per cent of both the number of loans and of the dollar volume is in the four counties of Philadelphia, Delaware, Montgomery, and Bucks. About 4 per cent of the number of loans and 2 per cent of the dollar volume is elsewhere in Pennsylvania.

Q. Referring to the next category, all loans of $50,000 or more, what did your studies show?

A. This shows 58.4 per cent of the number of loans and 43.5 per cent of the total dollar volume of such loans were in Philadelphia, Delaware, Montgomery, and Bucks Counties. 10.3 per cent of the number of loans and 7.5 per cent of the dollar volume of such loans were elsewhere in Pennsylvania.

Q. Now, turning to the next page of Exhibit 18, what did your studies show with respect to all lines of credit, $50,000 or more?

A. It shows 58.3 per cent of the number of such lines of credit and 47.7 per cent of the dollar volume of such lines of credit are in the four counties—Philadelphia, Delaware, Montgomery, and Bucks Counties, Pennsylvania. 10.3 per cent of the number of lines of credit and 7.1 per cent of their [fol. 714] dollar volume is elsewhere in Pennsylvania.

By Mr. Littleton:

Q. Doctor, turning to the all loans of $50,000 or more, the last item on the first page of this Exhibit G-18, I didn't hear you tell what the percentage of the total number of loans in all other areas in Pennsylvania was. Will you give us that?

A. I am sorry. What was your question, all other loans in Pennsylvania?

Q. Do you see all loans $50,000 or more?

A. Yes.

Q. In your next to the last line, the percentage of total of number of loans, I would like to direct your attention to the column headed "All other Areas".

A. Yes.

Q. You neglected to give us that in your narration about this G-18.

A. I am sorry, 31.3 per cent and 49 per cent of the total dollar volume in that category.

Q. Right. So that in Philadelphia National Bank the number of loans, $50,000 or more, 41.4 per cent are outside the four-county area, are they not?

The Court: 41—what?

[fols. 715-720] Mr. Littleton: 41.6 per cent. My addition is wrong.

The Witness: Yes.

By Mr. Littleton:

Q. And 56.5 per cent in dollar volume is outside the four-county area, is it not?

A. Yes.

Q. And on the next page, all lines of credit, $50,000 or more, number of lines credit outside the four-county area, 41.6 per cent of the total; is that correct?

A. Yes.

Q. And the dollar volume of those lines of credit outside the four-county area is 52.3 per cent; is that correct?

A. Yes, yes.

Mr. Littleton: Thank you. That's all.

The Court: That is it for the day. We will take a recess for five minutes and I will hear that application on the subpoena.

(Adjourned at 4:00 o'clock P.M., until 10:00 o'clock A.M. on Tuesday, June 6, 1961.)

[fols. 721-722] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

Philadelphia, Pa., June 6, 1961

SECOND DAY

Before Hon. Thomas J. Clary, J.

[fol. 723] JOHN DEAN GAFFEY, resumed.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 20 a table marked "Table 20, Girard—Loans and Lines of Credit Under $50,000 Based on Samples."

(Document headed "Table 20, Girard Loans and Lines of Credit Under $50,000 Based on Samples" was marked Exhibit G-20 for identification.)

Q. Dr. Gaffey, referring to Table 20, will you state what the source of the information is on which you relied in preparing that table.

A. I relied upon information which was submitted to the Government by Girard Trust Corn Exchange Bank in response to certain questions which the government propounded to that company on April 28, as modified on May 2. I believe the date of their letter transmitting the information to the Government was May 23, 1961.

Q. What does the table show with respect to the mortgage loans held by the Girard?

A. In mortgage loans, 23.8 per cent of the loans and 30.7 per cent were from Philadelphia, and 71.4 per cent of the number of such loans and 67.3 per cent of the dollar volume

of these loans was from Delaware, Montgomery, and Bucks Counties. Therefore, 95.2 per cent of the number of these [fol. 724] loans and 98 per cent of the dollar volume of such loans was from the four counties. The balance was distributed between the rest of Pennsylvania and all other areas. In the number of loans it was distributed approximately equal in the dollar volume. 0.2 per cent was from elsewhere in Pennsylvania, and the remaining 1.8 percent was from other areas.

Q. Referring to the data on commercial loans, what does the analysis show?

A. In commercial loans, 36.7 per cent of the number of the loans and 50.4 per cent of the dollar volume of such loans was from Philadelphia.

From Delaware, Montgomery, and Bucks Counties there came 55 per cent of the number of loans and 43.6 per cent of the dollar volume of such loans. Thus, from the four counties combined, there came 91.7 per cent of the number of loans and 94 per cent of the dollar volume of loans.

From the rest of Pennsylvania there came 3.3 per cent of the number of loans and 0.7 per cent of the dollar volume.

From other areas there came approximately 5 per cent of both the number of loans and the dollar volume of such [fol. 725] loans.

Q. What does the analysis show with respect to collateral loans?

A. 50.5 per cent of the collateral loans, that is, the number of such loans, came from Philadelphia, and 56.7 per cent of their dollar volume was from Philadelphia.

From Delaware, Montgomery, and Bucks Counties there came 35.2 per cent of the number of loans and 25.3 per cent of the dollar volume.

Thus, in the four counties combined there was 85.7 per cent of the number of loans and 82 per cent of the dollar volume.

From the rest of Pennsylvania there came 2.2 per cent of the number of loans and 1.6 per cent of the dollar volume.

From all other areas there came 12 per cent of the number of loans and 16 per cent, approximately, 16.4 percent of the dollar volume.

Q. With respect to lines of credit under $50,000 the in-

formation appears to be more limited, but what does it show?

A. It was quite incomplete. They told us that they had 186 such lines of credit and that their estimate was that 170 [fol. 726] of them came from the four counties, Philadelphia, Delaware, Montgomery, and Bucks Counties. This was labeled as an estimate by the people in Girard Trust who transmitted the information to the Government.

Q. And that would be about 92 per cent in the four-county area?

A. Approximately that, yes.

By Mr. Price:

Q. The numbers in the line entitled "Number of Loans" under "Mortgage Loans" and "Commercial Loans" and "Collateral Loans" should all be multiplied by 50 in order to know the actual number of loans made by the bank; isn't that correct?

A. Yes.

Q. The lines of credit was not a sample of a few of the total, was it?

A. No, it was not.

Q. There was no factor to apply there?

A. That is correct. The 186 is the actual number of lines of credit.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 21 a table entitled "Table 21, Philadelphia National—Loans and Lines of Credit Under $50,000."

[fol. 727] (Document headed "Table 21, Philadelphia National—Loans and Lines of Credit Under $50,000" was marked Exhibit G-21 for identification.)

By Mr. Reycraft:

Q. Dr. Gaffey, what is the source of the data contained in Government's Exhibit No. 21?

A. This table was compiled from materials which were submitted to the Government by the Pennsylvania National Bank in response to questions submitted by the Government on May 28, 1961, as modified on May 2, 1961. The date of

the letter from Pennsylvania National Bank transmitting the information was May 23, 1961.

Q. Is the information contained in this exhibit based upon a sample?

A. Yes, it is.

Q. And do you have the information with respect to the first portion of the sample?

A. Yes. The loans under $50,000 was a sample of one out of each 50 such loans.

The mortgage loans under $50,000 was also based on a sample of 1 out of 50.

The time credit loans was based upon a sample of 1 out of 300 of such loans.

Q. By multiplying in each case, for example, 1 out of 300. [fol. 728] would it be possible to get an approximate figure?

A. Yes.

Q. Will you describe the information which is shown by this exhibit with respect to loans under $50,000.

A. For loans under $50,000, excluding consumer credit and mortgage loans, 17.8 per cent of the number of loans and 33.3 per cent of the dollar volume of loans came from Philadelphia.

63.6 per cent of the number of loans and 42 per cent of the dollar volume was from Delaware, Montgomery and Bucks Counties.

Therefore, for the four counties combined, 81.4 per cent of the number of loans and 75.3 per cent of the dollar volume of such loans arose in those four counties.

Q. Now, moving outside the four-county area, what does the data show?

A. In the balance of Pennsylvania there accounted for 7.6 per cent of the number of loans and 6.7 per cent of the dollar volume of such loans.

In the rest of the United States they accounted for 10.2 per cent of the number of loans and 17.6 per cent of the dollar volume of loans.

A nominal amount came from foreign countries, 0.8 per [fol. 729] cent of the number of loans and 0.3 per cent of the dollar volume.

Q. What does the analysis show with respect to mortgage loans?

A. 8.3 per cent of the number of loans and 12.9 per cent of the dollar volume of mortgage loans under $50,000 came from Philadelphia.

80.6 per cent of the number of loans and 72 per cent of the dollar volume of such loans came from Delaware, Montgomery, and Bucks Counties.

Therefore, the combined total for the four counties was 88.9 per cent of the number of loans and 84.9 per cent of the dollar volume.

For the balance of Pennsylvania they accounted for 4.2 per cent of the number of loans and 4.8 per cent of the dollar volume.

For the rest of the United States the numbers were, the proportions were, 6.9 per cent of the number of loans and 10.3 per cent of the dollar volume.

There were no foreign loans in this category.

Q. Turning to time credit loans, Dr. Gaffey, what does the analysis show?

A. 25.7 per cent of the number of loans and 18.3 per cent [fol. 730] of the dollar volume came from Philadelphia.

58.7 per cent of the number of loans and 56.9 per cent of the dollar volume came from Delaware, Montgomery, and Bucks Counties.

Combining the four counties, 84.5 per cent of the number of loans and 75.3 per cent of the dollar volume came from Philadelphia, Delaware, Montgomery, and Bucks Counties.

Q. Moving out of the four-county area, what is shown by the table?

A. 3.4 per cent of the number and 5.4 per cent of the dollar volume arose elsewhere in Pennsylvania, and 12.1 per cent of the number and 19.4 per cent of the dollar volume arose elsewhere in the United States.

There were none in foreign countries.

By Mr. Littleton:

Q. Doctor, the information furnished to you was the sample information, was it not?

A. Yes.

Q. Does that appear anywhere on this Government's Exhibit 21?

A. No, it does not.

Q. And what was the sample for loans under $50,000 that [fol. 731] you have denominated by the letter E?

A. One out of 50. I may explain that E, F, and G, those were the categories which the Philadelphia National Bank put on their information which they transmitted to the Government.

Q. So that to get the actual number of loans under $50,000, excluding consumer credit and mortgage loans, one should multiply by 50; is that correct?

A. Yes.

Q. And the mortgage loans under $50,000, which on G-21 is denominated by the letter F, what was the rate of sampling there?

A. It was the same, 1 out of 50.

Q. So that the same thing will apply there, to get the actual number of loans one would multiply by 50?

A. Yes.

Q. And time credit loans, which you denominate under the letter G, what was the sampling there?

A. One out of each 300.

Q. So that to get the figure, one would multiply by 300?

A. Yes.

Q. Do you know whether there is any distinction in time credit loans between dealer paper and direct loans, Dr. [fol. 732] Gaffey?

A. No, I don't.

Q. Do you know whether in the documents furnished to you there is any distinction between the types of loans, for example, automobile loan or home appliance loan, or home modernization loan, or personal loan?

A. I don't recall from memory.

Q. You did have the information furnished to you, did you not?

A. I had the information which the Philadelphia National Bank furnished, yes, which was the information they agreed to furnish.

Q. Did the information which the Philadelphia National Bank furnished to you show the type of loan?

(No answer.)

Q. Do you have it with you?

A. I don't have it here.

Q. And you don't remember?

A. I don't remember specifically with regard to that particular information, no.

[fol. 733] Mr. Reycraft: Will you mark as Government's Exhibit No. 21-A a document entitled, "The Philadelphia National Bank Random Sample of Time Credit Loans (1 Out of Each 300)," consisting of 21 pages.

(Document headed "The Philadelphia National Bank Random Sample of Time Credit Loans (1 Out of Each 300)," consisting of 21 pages, was marked Exhibit G-21-A for identification.)

By Mr. Littleton:

Q. You have been looking at G-21-A which has been handed to you. What is it, in the first place?

A. It is a compilation of random sample of time-credit loans of the Philadelphia National Bank.

Q. Furnished to you by the Philadelphia National Bank?

A. Yes.

Q. Does it show the type of loan in each case?

A. Yes.

Q. All right.

A. Yes, it does.

Q. Now, I notice on G-20, which is the Girard loans and lines of credit, that you had one additional item from what you have on G-21. You have lines of credit under $50,000.

I don't find a similar compilation on G-21. Were you furnished by the Philadelphia National Bank with data on [fol. 734] lines of credit under $50,000 as of May 10, 1961?

A. I don't recall. We asked for the same information from the two companies, but it was not received.

Q. Will you read us the title that you have given to G-21, that is Table 21? Read it as you have it, please.

A. "Table 21, Philadelphia National Bank Loans and lines of credit under $50,000."

Q. Would you look at G-21 and tell me whether you have on it lines of credit under $50,000?

A. It's not there.

Q. It is not there.

Would you tell us why you put it in the title if it is not there?

A. Well, the titles were set up and the plan of tabulation was to prepare identical tables for the two defendant banks. The Government asked the two defendant banks for the same information.

Q. And did you get from Philadelphia National Bank —

A. —and this information——

Q. Excuse me.

A. Well, it was not received in identical form. I do not recall the specific reason why lines of credit was not shown on this Table 21.

Mr. Littleton: You have it there.

[fol. 735] Mr. Reycraft: Yes.

Mr. Littleton: Would you give it to him as long as you have it, Mr. Reycraft?

Mr. Reycraft: Yes.

Will you mark as Government's Exhibit No. 21-B a document headed "The Philadelphia National Bank Lines of Credit Under $50,000 as of May 10, 1961."

(Document entitled "The Philadelphia National Bank Lines of Credit Under $50,000 as of May 10, 1961," was marked Exhibit G-21-B for identification.)

Mr. Littleton: What did you number that, Mr. Reycraft?

Mr. Reycraft: B.

Mr. Littleton: B? Is there a 21-A?

Mr. Reycraft: Yes, there is.

The Witness: Yes, this tabulation of time-credit loans.

By Mr. Littleton:

Q. Will you read us what it says on G-21-B?

A. Yes. It is a separate table furnished by the Philadelphia National Bank, lines of credit under $50,000 as of May 10, 1961.

It gives the total number of lines of credit as fifty. It lists them as 100 per cent, gives the dollar amount as $1,248,000, [fol. 736] which is also listed as 100 per cent.

For the four-county area (Philadelphia, Bucks, Delaware, and Montgomery) twenty-seven lines of credit are shown, which are 54 per cent of the number of such lines of credit. The dollar amount for that area is $610,000, or 48.9 per cent of the dollar amount.

The eleven-county area, which is described as the four counties plus Chester, New Castle, Mercer, Burlington, Camden, Salem, and Gloucester, show thirty-one such lines of credit or 62 per cent of the number of such lines of credit. They show $720,000 or 57.7 per cent of the dollar volume.

Q. So that in this number they are 46 per cent outside the four-county area, are they not, in number?

A. Yes.

Q. And in amount there is 51 per cent outside the four-county area; is that correct?

A. Yes.

Mr. Littleton: Thank you very much, Doctor.

By Mr. Reycraft:

Q. Dr. Gaffey, I don't know whether you have this information, but is this exhibit based upon a sampling or is this a total?

A. (No response.)

Mr. Reycraft: Perhaps Mr. Littleton could tell us.

[fol. 737] Mr. Littleton: It is the absolute figure. I am advised that it is the absolute figure.

Mr. Reycraft: So that the total number of lines of credit under $50,000 held by the Philadelphia National Bank is fifty; is that correct?

Mr. Littleton: That's correct.

Mr. Reycraft: That is correct, I am sure.

Will you mark for identification as Government Exhibit No. 22 a table entitled, "Table 22, Philadelphia National Bank Commercial & Industrial Loans $50M & Over Outstanding September 21, 1960."

(Document headed, "Table 22," entitled "Philadelphia National Bank Commercial & Industrial Loans $50M & Over Outstanding September 21, 1960," was marked Exhibit G-22 for identification.)

By Mr. Reycraft:

Q. Dr. Gaffey, referring to Government's Exhibit No. 22, what was the source of the information on which you relied in preparing this exhibit?

A. This was prepared from information submitted by the Philadelphia National Bank to the Government in response to questions which the Government submitted to the bank on April 28, 1961, and modified May 2, 1961.

[fol. 738] The date of the bank's submission—the date of their letter enclosing the submission was May 23, 1961.

Q. Is the information based on an absolute number or on a sample?

A. This is the actual number.

Q. Now, referring, Dr. Gaffey, to loans of $50,000 to $100,000, what does this analysis show?

A. It shows 39 per cent of the number of loans and 38 per cent of the dollar volume of such loans came from Philadelphia; 35 per cent of the number of loans and 36 per cent of the dollar volume of such loans came from Delaware, Montgomery, and Bucks Counties; so 74 per cent of the number of loans and the same figure, 74 per cent, of the dollar volume of loans came from the four counties.

26 per cent of the number of loans and the same percentage of the dollar volume of loans in this size came from other places.

Q. What does the analysis show with respect to loans of $100,000 to $500,000?

A. It shows 42 per cent of the number of loans and 43 per cent of the dollar volume of loans in this class came from Philadelphia; 20 per cent of the number of loans and 19 per cent of the dollar volume of such loans came from the other three contiguous counties; and 62 per cent of the number of loans and the same percentage, 62 per cent, of the [fol. 739] dollar volume of loans came from the four-county area combined.

This leaves 38 per cent, both of the number of loans and 38 per cent of the dollar volume of loans from other places.

Q. Referring to loans between $500,000 and $1,000,000, what does the analysis show?

A. 44 per cent of the number of loans and 44 per cent of the dollar volume of loans in this class came from Philadelphia; 11 per cent of the number of loans and 11½ per cent of the dollar volume of loans in this class came from the other three contiguous counties; so 55 per cent of the number of loans and 55.5 per cent of the dollar volume of loans in this class came from the four-county area.

Therefore, 45 per cent of the number of loans and 44½ per cent of the dollar volume of loans came from elsewhere.

Q. Now referring to loans of $1,000,000 and over, what does the analysis show?

A. 37½ per cent of the number of loans and 34½ per cent of the dollar volume of loans of this class came from Philadelphia. Just over 11 per cent of the number of loans and of the dollar volume of loans came from the other three counties; so that the combined four-county total is 48.6 per cent of the number of loans and 45.7 per cent of [fol. 740] the dollar volume of loans in this larger class.

So, in this class 51.4 per cent of the number and 54.3 per cent of the dollar volume came from outside of this area.

Q. Now referring to the total of all of the categories of lines indicated on this exhibit, what do the figures show?

A. They show that 40.5 per cent of the number of loans and 37½ per cent of the dollar volume came from Philadelphia; 22.5 per cent of the number of loans and 14½ per cent of the dollar volume of all loans came from the other three counties; and the combined four-county total was 63 per cent of the number of loans and 52 per cent of the dollar volume of loans.

Q. What about outside the four county area?

A. 37 per cent of the number of loans and 48 per cent of the dollar volume of loans came from outside this area.

By Mr. Littleton:

Q. Outside what?

A. Outside of the Philadelphia, Delaware, Montgomery, and Bucks Counties, Pennsylvania.

Mr. Littleton: That's all right.

Mr. Reycraft: Will you mark for identification as Government Exhibit No. 23 a table entitled "Table 23, Girard Trust [fol. 741] Corn Exchange Bank Commercial & Industrial Loans, $50M & Over Outstanding September 21, 1960."

(Document headed "Table 23," entitled "Girard Trust Corn Exchange Bank Commercial & Industrial Loans $50M & Over Outstanding September 21, 1960," was marked Exhibit G-23 for identification.)

By Mr. Reycraft:

Q. Dr. Gaffey, referring to Government's Exhibit No. 23, what is the source of the information contained on which this exhibit was based?

A. This exhibit was compiled from information submitted by Girard Trust Corn Exchange Bank to the Government in response to questions submitted by the Government to the bank on April 28, 1961, and modified on May 2, 1961.

The material was transmitted to the Government on May 18, 1961.

Q. And are the data set forth here total figures or are they a sample?

A. These are the actual figures.

Q. Now referring to commercial and industrial loans of the Girard Trust Corn Exchange Bank of $50,000 to $100,000, what does the analysis show?

A. 56 per cent of the loans and 55 per cent of the dollar volume of loans in this class came from Philadelphia; 17½ [fol. 742] per cent of the number of loans and 17½ per cent of the dollar volume of loans of this class came from Delaware, Bucks, and Montgomery Counties. Thus, the total for the four counties of loans of this class is 73½ per cent of the number of loans and 72½ per cent of the dollar volume.

So, 26.5 per cent of the number of loans and 27.5 per cent —I am sorry, 26.5 per cent of the number of loans and 27.5 per cent of the dollar volume of such loans came from all other areas.

Q. Referring to the category of loans of the Girard Trust Corn Exchange between $100,000 and $500,000, what do the data show?

A. 56 per cent of the number of loans and 57 per cent of the dollar volume of such loans came from Philadelphia; 13 per cent of the number of loans and 12 per cent of the dollar volume of such loans came from Delaware, Bucks, and Montgomery Counties; and the figure for the four counties combined is 69 per cent of both the number of loans and of the dollar volume.

Thus, from outside of the area there came 31 per cent of the number of loans and 31 per cent of the dollar volume of loans in this class.

Q. Now referring to the category of loans of the Girard between $500,000 and $1,000,000, what does the analysis show?

[fol. 743] A. 51½ per cent of the number of loans and 49½ per cent of the dollar volume of these loans came from Philadelphia; 7½ per cent of the number of loans and 7 per cent of the dollar volume of these loans came from Delaware, Bucks, and Montgomery Counties. The combined total for the four counties was 59 per cent of the number of loans and 56½ per cent of the dollar volume of these loans.

41 per cent of the number of loans and 43½ per cent of the dollar volume of loans in this class came from outside of the area.

Q. What does the analysis show with respect to loans of $1,000,000 and over of the Girard?

A. In the largest class of loans, $1,000,000 and over, 40.5 per cent of the number and 42.5 per cent of the dollar volume came from Philadelphia; 9½ per cent of the number and 6½ per cent of the dollar volume came from Delaware, Bucks, and Montgomery Counties. So, combining them, the totals for the four counties in this class of loans was 50 per cent of the number of loans and 49 per cent of the dollar volume of loans.

Therefore, from all other area there came 50 per cent of these loans and 51 per cent of the dollar volume of this class of loans.

Q. What was the total number of loans of $1,000,000 and [fol. 744] over outstanding as of September 21, 1960?

A. There were only thirty-two loans in that class.

Q. Now referring to the total based on all of the categories set forth in this exhibit, what does the analysis show?

A. For all loans combined, that is, all commercial and industrial loans, $50,000 or more, 55 per cent of the loans and 51 per cent of the dollar volume of these loans came from Philadelphia; 14 per cent of the loans and 9.9 per cent of the dollar volume came from Delaware, Bucks, and Montgomery Counties; 69 per cent of the number of loans and 61.9 per cent of the dollar volume of loans came from the four-county area.

31 per cent of the loans and 39.1 per cent of the dollar volume came from other areas.

Mr. Reycraft: That's all.

By Mr. Price:

Q. What was the mechanical method used to compute these figures for dollar volume?

A. We merely distributed the loans we got by size class and added them up.

Q. Did you add them up with an adding machine or by eye or how?

A. Oh, by a machine. I didn't personally add them all. I had them added; I supervised and arranged to have them compiled.

[fol. 745] Q. They were all added by adding machine, were they?

A. Yes. I am quite sure they were all added by adding machine.

Mr. Price: All right.

Mr. Reycraft: Will you mark for identification as Government's Exhibit 24 a table headed, "Table 24, Commercial & Industrial Loans $50,000 and Over Merging Banks' Combined Totals."

(Document headed "Table 24," entitled "Commercial & Industrial Loans $50,000 and Over Merging Banks' Combined Totals," was marked Exhibit G-24 for identification.)

By Mr. Reycraft:

Q. Dr. Gaffey, referring to Government's Exhibit No. 24, can you tell me as of what date this information is applicable?

A. (No response.)

Q. Is it based on the same data as 23 and 22?

A. Yes, it is based on September 21, 1960.

Q. And are the data the same as the data underlying 22 and 23?

A. Yes.

Q. And are these the data which were supplied by the defendants in response to questions submitted by the Government on April 28, 1961?

[fol. 746] A. Yes.

Q. Referring to Government's Exhibit No. 24, in category $50,000 to $100,000, what does the combined analysis of the two banks' loans show?

A. It shows that 47½ per cent of the loans in this class and 47 per cent of the dollar volume of such loans came from Philadelphia; 26½ per cent of the number of loans and 26 per cent of the dollar volume came from Delaware, Bucks, and Montgomery Counties. From the four counties as a whole, 74 per cent of these loans arose from those counties and 73 per cent of the dollar volume of such loans was from that area.

From all other areas there came 26 per cent of the number of loans of this class and 27 per cent of the dollar volume of such loans.

Q. Now with respect to the category of $100,000 to $500,000, what does the analysis of the combined totals show?

A. It shows that 48 per cent of the number of loans and 50 per cent of the dollar volume came from Philadelphia; 17 per cent of the number of loans and 15½ per cent of the dollar volume of loans of this class came from Delaware, Bucks, and Montgomery Counties; 65 per cent of the number of loans and 65½ per cent of the dollar volume of loans in this class came from the four-county area.

[fol. 747] 35 per cent of the number of loans and 34½ per cent of the dollar volume of loans came from other areas.

Q. Referring to the category $500,000 to $1,000,000, what does the analysis of the combined banks' loans show?

A. 46½ per cent of the number of loans and 46 per cent of the dollar volume of these loans came from Philadelphia; 9.9 per cent of the number of these loans and 9.7 per cent of the dollar volume of these loans came from Delaware, Bucks, and Montgomery Counties. 56.4 per cent of the number of loans and 55.7 per cent of the dollar volume of loans in this class came from the four-county area.

43.6 per cent of the number of loans and 44.3 per cent of the dollar volume of these loans came from elsewhere.

Q. And what does the analysis show with respect to loans of $1,000,000 and over?

A. For these loans, 38½ per cent of the number of loans and 36.5 per cent of the dollar volume of these loans came

from Philadelphia; 10.4 per cent of the number and 10.2 per cent of the dollar volume came from Delaware, Bucks, and Montgomery Counties. 48.9 per cent of the number of loans and 46.7 per cent of the dollar volume of loans in this class came from the four-county area.

51.1 per cent of the number and 53.3 per cent of the dollar [fol. 748] volume came from all other areas.

Q. What do the totals show with respect to all commercial and industrial loans of $50,000 and over of both banks?

A. In the combined totals for both banks in all size classes of commercial and industrial loans, 47.5 per cent of the number of loans and 42.3 per cent of the dollar volume of loans came from Philadelphia; 19 per cent of the number of loans and 12.7 per cent of the dollar volume of loans came from Delaware, Bucks and Montgomery Counties. 66.5 per cent of the number of loans and 55 per cent of the dollar volume of loans came from the combined four-county area.

33½ per cent of the number of loans and 45 per cent of the dollar volume of loans came from all other areas.

Mr. Littleton: I have no questions.

Mr. Price: I have no questions.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 25 a document entitled "Table 25, Philadelphia National Bank All Loans $50M & Over, Except Commercial & Industrial Outstanding September 21, 1960."

(Document headed "Table 25," entitled "Philadelphia National Bank All Loans $50M & Over, Except Commercial & Industrial Outstanding September 21, 1960," was marked [fol. 749] Exhibit G-25 for identification.)

By Mr. Reycraft:

Q. Dr. Gaffey, referring to Government's Exhibit No. 25, what was the basis for the information contained in this exhibit?

A. This information was—this table was compiled from information supplied by the Philadelphia National Bank in response to a question submitted by the Government to the bank on April 28, 1961, and modified May 2, 1961.

The letter of transmittal was May 23, 1961.

Q. Dr. Gaffey, referring to the categories set forth in the exhibit of real-estate loans, what does the analysis show?

A. It shows that 12½ per cent of the number of loans and 44 per cent of the dollar volume of these loans came from Philadelphia; 45 per cent of the number of loans and 16½ per cent of the dollar volume of loans came from Delaware, Montgomery, and Bucks Counties. 57½ per cent of the number of loans and 60.5 per cent of the dollar volume of loans came from the four-county area.

42½ per cent of the number of loans and 39½ per cent of the dollar volume of these loans came from all other areas.

Q. Dr. Gaffey, referring to the next category, which is [fol. 750] loans to financial institutions, can you tell me what type of financial institutions are included in this category?

A. It includes all types that borrow from commercial banks—small-loan companies, consumer-credit companies, consumer-finance companies, household finance companies. They go by different names. Loans to other banks would also be included in this category.

Q. Now referring to the information which has been obtained with respect to loans to institutions of this type, what do the data show with respect to the origin of these loans?

A. 5 per cent of the number and 5½ per cent of the dollar volume from Philadelphia; 15 per cent of the number and 7 per cent of the dollar volume from Delaware, Montgomery, and Bucks Counties. Combining them, 20 per cent of the number and 12½ per cent of the dollar volume from the four counties combined.

80 per cent of the number of loans and 87½ per cent of the dollar volume from other areas.

Q. Now with respect to the category loans for purchasing or carrying securities, will you describe the type of loans which are included in this category?

A. They would be loans to any purchasers of securities, such as an individual; they would also be loans to brokers [fol. 751] for the purpose of purchasing or carrying securities.

Q. What does the information show with respect to the geographic origin of loans of this type?

A. 22 per cent of the loans and 1½ per cent of the dollar volume from Philadelphia; 56 per cent of the loans and

3½ per cent of the dollar volume from Delaware, Montgomery, and Bucks Counties. 78 per cent of the loans and 5½ per cent of the dollar volume from the four counties combined.

22 per cent of the loans and 94½ per cent of the dollar volume from other areas.

Q. Referring to the category of loans to individuals, what does the information show?

A. It shows 28½ per cent of the number of loans and 22 per cent of the dollar volume of such loans were from Philadelphia; 68 per cent of the loans and 74½ per cent of the dollar volume were from Delaware, Montgomery, and Bucks Counties. 96½ per cent of the number of loans and the same proportion, 96½ per cent, of the dollar volume came from the four-county area.

3½ per cent of the number of loans and 3½ per cent of the dollar volume of such loans were from all other areas.

Q. Now with respect to the next category entitled, "All [fol. 752] Other Loans," what types of loans are included in this category?

A. Well, any that wouldn't fall in any of the other categories. It would include loans to governmental agencies, as the note shows.

Q. Would it include loans to local governmental agencies?

A. Yes, it would.

Q. School districts?

A. Yes.

Q. All right.

With respect to this category, what does the information show?

A. 28.5 per cent of the number of loans and 12.8 per cent of the dollar volume came from Philadelphia; 33½ per cent of the number of loans and 12.2 per cent of the dollar volume came from Delaware, Montgomery, and Bucks Counties. 62 per cent of the loans and 25 per cent of the dollar volume came from the four counties combined.

38 per cent of the number of loans and 75 per cent of the dollar volume came from other areas.

Q. What does the analysis show with respect to all of these loans included in the above categories?

A. Taking all of these classes of loans combined, 16 per cent of the total number of loans and 14½ per cent of the

[fol. 753] dollar volume of loans came from Philadelphia; 36 per cent of the number of loans and 11 per cent of the dollar volume came from Delaware, Montgomery, and Bucks Counties. 52 per cent of the total number of loans and 25½ per cent of the dollar volume of these loans came from the four-county area.

48 per cent of the number of loans and 74.5 per cent of the dollar volume of these loans came from other areas.

By Mr. Littleton:

Q. So, Doctor, almost one half in number of loans in this category and three fourths of the dollar volume of the loans in this category come from outside the four-county area; is that correct?

A. Yes.

Mr. Littleton: Thank you.

[fol. 754] Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 26, "Table 26, Girard Trust Corn Exchange Bank All Loans $50M & Over, Except Commercial & Industrial Outstanding September 21, 1960."

(Document entitled "Table 26, Girard Trust Corn Exchange Bank All Loans $50M & Over, Except Commercial & Industrial Outstanding September 21, 1960" was marked G-26 for identification.)

Q. Dr. Gaffey, referring to Government's Exhibit 26, what was the source of the data contained in this exhibit?

A. The exhibit was compiled from information supplied by Girard Trust Corn Exchange Bank to the Government in response to questions submitted to the bank by the Government on April 28, 1961, and modified on May 2, 1961.

Q. Are these figures totals or are they a sample?

A. They are total figures.

Q. With respect to the real estate loans of $50,000 and over held by the Girard Trust Corn Exchange Bank on September 21, 1960, what does the analysis show?

A. 48 per cent of the loans and 56 per cent of the dollar volume of these loans came from Philadelphia.

19 per cent of the loans and 10.2 per cent of the dollar volume came from Delaware, Montgomery, and Bucks [fol. 755] Counties.

Therefore, 67 per cent of the loans, that is, the number of loans, and 66.2 per cent of the dollar volume of these loans came from these four counties.

33 per cent of the number of loans and 33.8 per cent of the dollar volume of loans came from all other areas.

Q. With respect to loans to financial institutions, what does the analysis show?

A. 28 per cent of these loans and 21 per cent of the dollar volume of these loans came from Philadelphia.

7 per cent of the number of these loans and 4 per cent of the dollar volume of these loans came from Delaware, Montgomery and Bucks Counties.

35 per cent of the number of loans and 25 per cent of the dollar volume of these loans came from the four-county area.

65 per cent of the number of loans and 75 per cent of the dollar volume of these loans came from all other areas.

Q. What does the analysis show with respect to loans for purchasing or carrying securities?

A. 74 per cent of the loans of this type and 83 per cent of the dollar volume of the loans of this type came from [fol. 756] Philadelphia.

6.5 per cent of the number of loans and 2.4 per cent of the dollar volume of these loans came from the other three counties.

For the four counties, 80.5 per cent of the number of loans and 85.6 per cent of the dollar volume of loans came from these four counties.

19.5 per cent of the number of this class of loans and 14.4 per cent of the dollar volume of these loans came from all other areas.

Q. And with respect to loans to individuals, what does the study show?

A. It shows 52.5 per cent of the number of loans and 55 per cent of the dollar volume of loans to individuals came from Philadelphia.

23.5 per cent of the number of loans and 17 per cent of the dollar volume of loans came from Delaware, Montgomery, and Bucks Counties.

76 per cent of the number of loans and 72 per cent of the dollar volume of loans came from the four-county area combined.

24 per cent of the number of loans and 28 per cent of the dollar volume of loans came from other areas.

[fol. 757] Q. And what does it show with respect to all other loans?

A. 28.5 per cent of the number of these loans came from Philadelphia, and 21.2 per cent of the dollar volume of these loans came from Philadelphia.

9.5 per cent of the number of loans and 7.8 per cent of the dollar volume of loans in this class came from Delaware, Montgomery, and Bucks Counties.

38 per cent of the number of loans and 29 per cent of the dollar volume of loans came from the four counties combined.

62 per cent of the number of loans and 71 per cent of the dollar volume came from elsewhere.

Q. And with respect to the combined total, what does the exhibit show?

A. Taking all of these classes of loans combined, 49.5 per cent of the number of loans and 43.5 per cent of the dollar volume of loans came from Philadelphia.

19 per cent of the number of loans and 10.5 per cent of the dollar volume of loans came from Delaware, Montgomery, and Bucks Counties.

68.5 per cent of the number of loans and 54 per cent of the dollar volume of loans came from these four counties combined.

[fol. 758] 31.5 per cent of the number and 46 per cent of the dollar volume of loans came from all other areas.

Mr. Price: I have no questions.

The Court: Let us wait for the next exhibit until after the 10-minute break.

(A 10-minute recess was taken at 10:05 A.M.)

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 27 a table entitled "Table 27, All Loans $50M and Over Except Commercial & Industrial Merging Banks' Combined Totals Outstanding September 21, 1960."

(Document entitled "Table 27, All Loans $50M and Over Except Commercial & Industrial Merging Banks' Combined Totals Outstanding September 21, 1960" was marked Exhibit G-27 for identification.)

Q. Dr. Gaffey, referring to Government's Exhibit No. 27, what is the source of the information contained in this report?

A. This is the table that was compiled from the combined figures on the two preceding tables, 26 and 25.

Q. Based on information submitted by the defendants in response to questions of the Government of April 28, 1961?

[fol. 759] A. Yes.

Q. Referring to the category of real estate loans, what are the combined figures of the two banks with respect to geographical areas?

A. 25.5 per cent of the number of loans and 48.5 per cent of the dollar volume of these loans came from Philadelphia.

35.5 per cent of the number of loans and 14.5 per cent of the dollar volume of loans came from Delaware, Bucks, and Montgomery Counties.

61 per cent of the number of loans and 63 per cent of the dollar volume of loans came from the four counties combined.

39 per cent of the number of loans and 37 per cent of the dollar volume of loans came from all other areas.

Q. And with respect to loans to financial institutions, what do the combined totals show?

A. 12 per cent of the number of loans and 9.5 per cent of the dollar volume of loans in this class came from Philadelphia.

12.6 per cent of the number of loans and 6.5 per cent of the dollar volume of these loans came from Delaware, Bucks, and Montgomery Counties.

[fol. 760] 24.6 per cent of the number of loans and 16 per cent of the dollar volume of these loans came from the four counties combined.

75.4 per cent of the number and 84 per cent of the dollar volume came from other areas.

Q. And with respect to loans for purchasing or carrying securities, what does the information show?

A. 62.5 per cent of the number of loans and 23 per cent of the dollar volume came from Philadelphia.

17.5 per cent of the number of loans and 3.5 per cent of the dollar volume came from Delaware, Bucks, and Montgomery Counties.

80 per cent of the number of loans and 26.5 per cent of the dollar volume of loans came from the four counties combined.

20 per cent of the loans and 73.5 per cent of the dollar volume came from all other areas.

Q. And with respect to loans to individuals, what does the analysis show?

A. 50 per cent of the number of loans and 52 per cent of the dollar volume of these loans were from Philadelphia.

27.5 per cent of the number of loans and 22 per cent of the dollar volume of these loans came from Delaware, Bucks, and Montgomery Counties.

[fol. 761] 77.5 per cent of the number of loans and 74 per cent of the dollar volume came from the four counties combined.

22.5 per cent of the number and 26 per cent of the dollar volume came from all other areas.

Q. And with respect to all other loans, what does the analysis show?

A. 28.5 per cent of the number were from Philadelphia, and 15.4 per cent of the dollar volume were from Philadelphia.

29.25 per cent of the number and 11.2 per cent of the dollar volume came from Delaware, Bucks, and Montgomery Counties.

57.75 per cent of the number and 26.6 per cent of the dollar volume came from the four counties combined.

42.25 per cent of the number and 73.4 per cent of the dollar volume came from all other areas.

Q. And with respect to the combined totals of the two banks for all the loans of $50,000 and over except commercial and industrial loans, what does the analysis show?

A. For all loans of the two banks in these classes combined, 34.5 per cent of these loans arose in Philadelphia and [fol. 762] 25 per cent of the dollar volume came from there.

26.5 per cent of the number of these loans and 11.5 per cent of the dollar volume were from Delaware, Bucks, and Montgomery Counties.

61 per cent of the number of loans and 37 per cent of the dollar volume of loans came from the four counties combined.

39 per cent of the number of loans and 63 per cent of the dollar volume were from all other areas.

By Mr. Littlefon:

Q. Dr. Gaffey, will you address yourself for a moment to the second category you have there, loans to financial institutions.

A. Yes.

Q. In connection with a similar category on G-25 Mr. Reycraft asked you to describe what those loans would be, to what kind of financial institutions, and you said it came from a list. Where did you get that information?

A. Well, these classes are the classes that the banks report to the bank examining authorities, in this case to the Federal Reserve.

Q. In other words, from the call reports?

A. Yes.

[fol. 763] Q. I didn't hear you include loans to correspondent banks. Would they be included under loans to financial institutions?

A. I don't believe I used those words, but I believe I did say it would include loans to other banks.

Q. It would include correspondent banks?

A. Yes, it would.

Mr. Littleton: Thank you.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 28, Table 28, entitled "Philadelphia National Bank, All Personal & Business Demand Deposit Accounts $10M & Over."

(Document entitled "Table 28, Philadelphia National Bank, All Personal & Business Demand Deposit Accounts $10M & Over" was marked Exhibit G-28 for identification.)

Q. Dr. Gaffey, referring to Government's Exhibit No. 28, what is the source of the data contained in this exhibit?

A. This exhibit was compiled from information submitted to the Government by the Philadelphia National Bank in response to questions submitted to the bank by the Government on April 28, 1961, as modified May 2, 1961.

Q. And is this information a sample of accounts or is it total accounts over $10,000?

[fol. 764] A. It includes all accounts over $10,000.

Mr. Littleton: I don't want to be captious. It is $10,000 and over, isn't it? You said over $10,000. It is $10,000 and over.

The Witness: That is correct, sir. It is $10,000 and over.

By Mr. Reycraft:

Q. With respect to the category of personal and business demand deposit accounts of $10,000 to $50,000 what does the analysis show?

A. In this class of accounts 48.5 per cent of accounts, that is, the number of accounts, and 49.5 per cent of the dollar volume of accounts came from Philadelphia.

33.5 per cent of the number of accounts and 32 per cent of the dollar volume of these accounts came from Delaware, Montgomery, and Bucks Counties.

82 per cent of the number of accounts and 81.5 per cent of the dollar volume of these accounts came from the four counties combined.

18 per cent of the number of accounts and 18.5 per cent of the dollar volume of accounts came from all other areas.

Q. Mr. Gaffey, with respect to the accounts from $50,000 to $100,000, what does the analysis show?

[fol. 765] A. 44.5 per cent of the accounts and 45 per cent of the dollar volume of these accounts in this class came from Philadelphia.

22 per cent of the accounts and 21 per cent of the dollar volume of accounts in this group came from Delaware, Montgomery, and Bucks Counties.

66.5 per cent of the number of accounts and 66 per cent of the dollar volume of these accounts came from the four counties combined.

33.5 per cent of the accounts and 34 per cent of the dollar volume of the accounts came from all other areas.

Q. And with respect to accounts between $100,000 and $500,000, that is, $100,000 to $500,000, what does the analysis show?

A. 47.5 per cent of the number of accounts and 47 per cent of the dollar volume came from Philadelphia.

12.5 per cent of the number of accounts and the same proportion of the dollar volume came from Delaware, Montgomery, and Bucks Counties.

58 per cent of the number of accounts and 39.5 per cent of the dollar volume of these accounts came from the four counties combined.

Q. And outside the four-county area?

A. 42 per cent of the number of accounts came from out-
[fol. 766] side of the area.

I think that there was a miscalculation. The figures do not add to 100 there. May I go back and correct that?

Q. Yes, indeed.

A. It appears that taking the dollar volume of accounts in this class, ~~$100~~,000 to $500,000, 47 per cent of the dollar volume of the accounts came from Philadelphia and 12.5 per cent of the dollar volume of the accounts came from Delaware, Montgomery, and Bucks Counties, and the combined total should have been 59.5 per cent from the four counties combined, and somehow, I suppose in typing it, the figure was not correct on the table, but the correct figure is 59.5 per cent of the dollar volume of accounts in this class came from the four counties combined and 40.5 per cent came from all other areas.

Q. And with respect to the personal and business demand deposits from $500,000 to $1,000,000, what does the analysis show?

A. 35 per cent of the accounts and 35.5 per cent of the dollar volume came from Philadelphia.

10 per cent of the accounts and also 10 per cent of the dollar volume came from Delaware, Montgomery, and
[fol. 767] Bucks Counties.

45 per cent of the accounts and 45.5 per cent of the dollar volume of these accounts came from the four counties combined.

55 per cent of the accounts and 54.5 per cent of the dollar volume came from other places.

Q. And for $1,000,000 and over, what is indicated?

A. 58.5 per cent of the number of accounts and 63 per cent of the dollar volume was from Philadelphia.

7 per cent of the number of accounts and 6 per cent of the dollar volume came from Delaware, Montgomery, and Bucks Counties.

65.5 per cent of the number of accounts in this class and 69.5 per cent of the dollar volume of accounts in this class came from the four counties combined.

34.5 per cent of the number of accounts and 30.5 per cent of the dollar volume came from all other areas.

Q. What are the combined totals?

A. Taking the combined totals of all the classes, 47.5 per cent of the number of accounts and 51.5 per cent of the dollar volume came from Philadelphia.

28 per cent of the number of accounts and 13.5 per cent of the dollar volume came from Delaware, Montgomery, [fol. 768] and Bucks Counties.

75.5 per cent of the number of accounts and 65 per cent of the dollar volume were from the four counties combined.

24.5 per cent of the number and 35 per cent of the dollar volume came from all other areas.

Mr. Littleton: Just one question: In the $100,000 to $500,000 group did I understand you to say the percentage of the number of accounts was 47.5? It has here 45.5 My recollection is you said 47.5.

A. Well, 45.5 is the proper figure.

Mr. Littleton: Right. Thank you.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 28-A, Table 28-A, headed "Philadelphia National Bank, All other Deposit Accounts $10M & Over."

(Document entitled "Table 28-A, Philadelphia National Bank, All Other Deposit Accounts $10M & Over" was marked Exhibit 28-A for identification.)

Q. Dr. Gaffey, referring to Government's Exhibit 28-A what is the source of the information contained in this exhibit?

A. The exhibit was compiled from information submitted [fol. 769] to the Government by the Philadelphia National Bank in response to questions submitted by the Government, modified May 2, 1961.

The Court: Educate me, Mr. Reycraft. What do you mean by "all other deposits, $10,000 and over"?

Mr. Reycraft: Your Honor, I don't believe that I can give you all the types of deposits which are included in this category. May I ask the witness if he can point it out?

The Court: All right.

I would assume they would be savings accounts, and so forth, and all personal and business demand deposits. I would assume that that would include savings accounts, and so forth.

Mr. Reycraft: Well, personal and business demand deposit accounts are included in G-28, and you are correct, Your Honor, that G-28-A includes time deposits, which are savings deposits, it includes domestic and foreign bank demand deposits, and it includes Government demand deposits, and I believe that this is the total.

Mr. Littleton: Do I understand Mr. Reycraft to say that this Table 28-A includes savings deposits?

The Court: It says "All Others." It is all-inclusive.

[fol. 770] Mr. Littleton: If Your Honor please, it does not include savings deposits.

The Court: That is what I wanted to find out.

By Mr. Reycraft:

Q. May I ask, Dr. Gaffey, if you have that information?

A. Well, it includes the deposit accounts, $10,000 or over, in the three classes that are shown on the left-hand side of the table, that is, time deposits, $10,000 or over, bank demand deposits, and Government demand deposits—in other words, demand deposits which are not on Table 28, Table 28 being personal and business demand deposits and time deposits.

Mr. Reycraft: Will you mark as Government's Exhibit 28-B the chart which was furnished to the Government by the Philadelphia National Bank and given the letter designation L. It contains information with respect to loans of $50,000 and over and deposits of $10,000 and over.

(Chart furnished to the Government by the Philadelphia National Bank and given the letter designation L was marked Exhibit G-28-B for identification.)

Mr. Reycraft: To answer Your Honor's question, savings [fol. 771] deposits are not included. They are on a different chart.

By Mr. Reycraft:

Q. Now, referring to Government's Exhibit 28-A, Dr. Gaffey, will you describe the information contained in this analysis under time deposits of $10,000 and over.

A. 44.5 per cent of these time deposit accounts were from Philadelphia; 43 per cent of the dollar volume of these accounts were from Philadelphia.

From Delaware, Bucks, and Montgomery Counties there came 15 per cent of the number of these accounts and 2.75 per cent of the dollar volume of these accounts.

From the four counties combined there came 59.5 per cent of the number of these accounts and 45.75 per cent of the dollar volume.

From all other areas there came 40.5 per cent of the number of accounts and 54.25 per cent of the dollar volume.

Q. And with respect to domestic and foreign bank demand deposits, what is indicated?

A. 1.75 per cent of the number of accounts and 6 per cent of the dollar volume came from Philadelphia.

1.25 per cent of the number of accounts and 1 per cent of [fol. 772] the dollar volume came from the three surrounding counties, that is, from Delaware, Bucks, and Montgomery Counties.

3 per cent of the number of accounts and 7 per cent of the dollar volume came from those four counties combined.

97 per cent of the accounts and 93 per cent of the dollar volume came from all other areas.

Q. And with respect to Government demand deposits, what is indicated?

A. 20.5 per cent of the number of these accounts came from Philadelphia, and 71 per cent of the dollar volume of these accounts came from Philadelphia.

64.5 per cent of the number of accounts and 4 per cent of the dollar volume of this class of deposits came from Delaware, Bucks, and Montgomery Counties.

85 per cent of the number of accounts and 75 per cent of the dollar volume of these accounts came from those four counties combined.

15 per cent of the number of accounts and 25 per cent of the dollar volume came from other areas.

By Mr. Littleton:

Q. Doctor, in the last category, Government demand de- [fol. 773] posits, will you explain what the word "Government" means there?

A. It means any governmental agency including Federal, State, and local governments.

By Mr. Price:

Q. Did I correctly understand you to say that this exhibit now shows all deposit accounts, $10,000 and over, in the three categories designated on the left-hand side of the exhibit, excluding savings accounts?

A. Yes.

[fol. 774] Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 29, "Table 29, Demand Deposits, $10M & Over Merging Banks Combined."

(Document headed "Table 29," entitled "Demand Deposits, $10M & Over Merging Banks Combined," was marked Exhibit G-29 for identification.)

The Witness: For some reason I don't have a copy of that one.

By Mr. Reycraft:

Q. Dr. Gaffey, referring to Government Exhibit 29, what is the source of the information contained in that exhibit?

A. This was compiled from information submitted by the two defendant banks to the Government in response to questions submitted by the Government to the banks on April 28, 1961, modified May 2, 1961.

Q. Dr. Gaffey, now would you refer to the footnote concerning the somewhat different basis for the figures of these two banks and explain that?

A. Well, the domestic and foreign bank demand-deposit accounts of the Philadelphia National Bank were not included in these figures. The way the information was submitted from the Girard made it very difficult and laborious to exclude them, so they were not excluded from Girard, although they were excluded from Philadelphia National.

[fol. 775] Q. All right. Referring to the first category, which is Girard accounts, will you describe what the information shows?

A. It shows that of all demand deposit accounts of Girard of $10,000 or more, 61.7 per cent of the accounts and 65 per cent of the dollar volume was from Philadelphia.

22.1 per cent of the number of accounts and 13 per cent of the dollar volume were from Delaware, Bucks, and Montgomery Counties.

83.8 per cent of the accounts and 78 per cent of the dollar volume came from these four counties combined.

16.2 per cent of the number of accounts and 22 per cent of the dollar volume came from all other areas.

Q. And with respect to the Philadelphia National Bank what is indicated by the analysis?

A. Taking all demand-deposit accounts of $10,000 or over, except the domestic and foreign bank demand-deposit accounts which were excluded, 46.6 per cent of these accounts came from Philadelphia and 55.7 per cent of the dollar volume of these accounts came from Philadelphia.

29.4 per cent of the number of accounts and 11.3 per cent of the dollar volume were from Delaware, Bucks, and Montgomery Counties.

76 per cent of the number of accounts and 67 per cent of [fol. 776] the dollar volume of these accounts were from these four counties combined.

24 per cent of the accounts and 33 per cent of the dollar volume of these accounts were from all other areas.

Q. What are the combined totals?

A. Combining the totals for the two banks as above, 55 per cent of the number of accounts and 59 per cent of the dollar volume were from Philadelphia.

25.5 per cent of the number of accounts and 12.1 per cent of the dollar volume of these accounts were from Delaware, Bucks, and Montgomery Counties.

80.5 per cent of the accounts and 71.1 per cent of the dollar volume of the accounts were from the four counties combined.

19.5 per cent of the accounts and 29.9 per cent of the dollar volume were from all other areas.

Q. Dr. Gaffey, what is the dollar volume of Girard's demand-deposit accounts of $10,000 and over which originate in the four-county area?

A. 78 per cent.

Q. The dollar amount?

A. I am sorry.

Q. The dollar figure? Is it $222,000,000?

[fol. 777] A. Oh, the dollar figure, $222,747,000.

Q. And what is the comparable amount of the Philadelphia National Bank demand deposit accounts of $10,000 or over which originate within the four-county area?

A. $343,242,000.

Q. And what are the combined totals of the demand-deposit accounts of $10,000 and over which originate within the four-county area?

A. $565,989.

Q. Is that million?

A. I'm sorry. Will you strike that answer? $565,989,000.

By Mr. Littleton:

Q. Doctor, will you tell us why you excluded the Philadelphia National Bank figures on domestic and foreign bank demand deposits and included the Girard Trust Corn Exchange?

A. Well, we would have excluded them from both had it been—had we been able to do that. This information came in to as quite late. We got the information from—well, their letters of transmittal were on the 24th and the 23rd of May.

Q. I don't understand what you mean, you would have excluded it from both.

A. The figures on domestic and foreign bank demand deposits were excluded from Philadelphia National Bank [fol. 778] figures because the information which was submitted to us was in the form which made it quite easy and feasible to separate out those figures.

The information in Girard was all mixed through and so, in view of the pressure of time, we did not.

I think it was proper to exclude them because in a distribution of accounts by geographical area most—well, all foreign banks are obviously out of the four-county area and most domestic banks which carry—that is, domestic meaning United States banks, which carry demand deposits in Philadelphia banks would be outside of this area.

We were trying to get a tabulation which would show demand deposits of $10,000 and over which did not include these bank deposits, which are in a somewhat different category.

Q. What is the title of your Table 29, which is here marked G-29?

A. Demand-deposit accounts $10,000 and over.

Q. Are the domestic bank demand-deposit accounts of Philadelphia National Bank demand deposits of $10,000 or over?

A. Yes.

Q. Are there foreign bank demand-deposit accounts of $10,000 and over?

A. Yes.

[fol. 779] Q. If your table is to show demand-deposit accounts of $10,000 and over, why do you want to exclude them?

A. Well, we didn't change the title on the table because they are included for the Girard bank, but excluded for the Philadelphia bank. The proper——

Q. Is that an explanation, Doctor?

A. I think the table explains what was done. That was our intention to explain in the table what was done.

Q. What your footnote explains to me is that you mixed apples and pears; isn't that correct?

A. No, I don't believe so.

Q. Well, do you agree with me that your totals are absolutely meaningless?

A. No.

Q. Well, what is the meaning of them?

A. The meaning of them is that most demand-deposit accounts of $10,000 or over come from these four counties.

Q. Would you look at G-28-A, please?

A. (No response.)

Q. Do you have it?

A. Yes.

Q. First, let me ask you, what is the title of Table 28-A, which is G-28-A?

A. Philadelphia National Bank, all other deposit ac-

[fol. 780] counts, $10,000 and over.

Q. And domestic and foreign bank demand deposits, I ask you to please address yourself to that category and tell me how many domestic and foreign bank demand deposits of the Philadelphia National Bank of $10,000 and over are outside the four-county area—the number, now.

A. 881.

Q. And the dollar value of such?

A. $173,105,000.

Q. $173,105,000?

A. Yes.

Q. Now address yourself, please, to G-29 and under Philadelphia National Bank, in the column "All Other Areas," which means outside the four-county area, tell me the number of demand-deposit accounts $10,000 and over.

A. 1,015.

Q. And the dollar volume of them?

A. $168,974,000.

Q. So that you have put in a figure of $168,974,000 and you have omitted a figure of $173,105,000; is that correct?

A. Yes.

Q. And you still say that your totals are meaningful?

A. Yes, sir. I think they are meaningful. The domestic and foreign bank demand deposits are quite a different [fol. 781] category from most other demand deposits, both classes being $10,000 or over.

Q. Does that appear in your title?

A. You would ordinarily expect——

Q. Does that appear in the title to Table 29?

A. Well, you didn't quite let me finish my explanation.

Q. All right. Forgive me. Go ahead.

A. You asked me to give it to you.

You would normally expect most of these 909 accounts of domestic and foreign bank demand deposits to come from out of the area.

Q. What does that——

A. The 909 banks are shown in the previous table, Table 28-A, with the distribution of where they come from.

Now, we would have done that also for Girard had we received the information in time and had the time to do it.

Actually, Table 29 understates the demand deposits other than domestic and foreign bank demand deposits, which come from the four-county area with which we are primarily concerned.

Q. If you had done what you said you would have done if you had had the information from Girard in the form that you seem to think you should have it, then your totals [fol. 782] probably would be correct, wouldn't they?

A. Yes.

Q. And not having done it, they, therefore, must be incorrect; isn't that so?

A. Well, no. That's not so.

I think the table explains what it purports to show. I see nothing incorrect about it.

Mr. Littleton: All right.

The Witness: There hasn't been any effort to misrepresent what is in the table.

Mr. Littleton: Nobody has said anything about misrepresentation. I asked you whether your figures for the totals were meaningful.

The Witness: I think they are, sir.

By Mr. Price:

Q. The title doesn't accurately describe what you say the proper designation of demand deposits $10,000 and over is, does it?

A. No, but the title, taken together with the footnote, is intended to accurately describe what the table contains.

Q. Well, the footnote speaks about understatement and overstatement.

You wouldn't have any understatement or overstatement if you had a proper title, would you?

[fol. 783] A. It would be possible to put the information that is in that footnote in the title and explain in about the same way what is in the table as was done. It was done this way instead of putting it in the title, but that wouldn't have affected the figures that are in the table.

Q. In other words, you are trying to exclude demand deposits simply because they came from these domestic and foreign banks in order to change the percentage figures?

A. No, sir. We are trying to exclude foreign and domestic bank demand deposits because they are a different category classification on a logical basis than other demand deposits of $10,000 or over.

Q. Who classifies them differently?

A. The statements of condition which the banks file with the banking regulatory authorities classify them differently.

By Mr. Littleton:

Q. The difference is in the geography, isn't it, Doctor?

A. No, sir. The difference is not in the geography. They

are a different classification of accounts. They are also different in geographic distribution, but that's not the principal difference between them.

Q. What other difference is there besides geography?

A. (No response.)

Q. Aren't they demand deposits $10,000 and over?

[fol. 784] A. Yes, but they are a special classification of demand deposits of other banks.

Q. You mean they are banks?

A. Yes.

Q. They are banks instead of other business companies?

A. Yes.

Q. Or individuals?

A. Yes.

Q. But they are still demand deposits over $10,000.

A. Yes.

Q. So the only real difference is geography, isn't it?

A. No.

Q. And you are trying to demonstrate geography, aren't you?

A. The principal purpose of these two tables is to show geographical distribution.

By the Court:

Q. If you add $187,000,000 to the "All Other Areas" of the Girard Trust, it would show quite a difference between your 28 and your 71 per cent, wouldn't it?

A. Yes.

The Court: All right.

Mr. Littleton: That's all.

Mr. Price: That's all.

[fol. 785] Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 30 a table entitled "Table 30, 100 Largest Demand Deposits of Girard Trust Corn Exchange Bank and 92 Largest Demand Deposits of Philadelphia National Bank."

(Document headed "Table 30," entitled "100 Largest Demand Deposits of Girard Trust Corn Exchange Bank and 92 Largest Demand Deposits of Philadelphia National Bank," was marked Exhibit G-30 for identification.)

By Mr. Reycraft:

Q. Dr. Gaffey, referring to Government's Exhibit No. 30, what is the source of the information shown on this exhibit?

A. This is also based on information which was submitted by the Girard Trust Corn Exchange Bank and Philadelphia National Bank to the Government in response to questions submitted by the Government to these banks on April 28, 1961, and modified May 2, 1961.

Q. Dr. Gaffey, with respect to the analysis of the Girard accounts, what does the table show?

A. It shows that 61 per cent of these accounts and 70.5 per cent of the dollar volume of these accounts came from Philadelphia.

7 per cent of the accounts and 4.9 per cent of the dollar volume of these accounts came from Delaware, Bucks, and [fol. 786] Montgomery Counties.

68 per cent of the number of accounts and 75.4 per cent of the dollar volume of these accounts came from this four-county area.

10 per cent of the number of accounts and 9.6 per cent of the dollar volume of these accounts came from elsewhere in Pennsylvania.

22 per cent of the number of accounts and 15 per cent of the dollar volume of these accounts came from all other places.

Q. What does the analysis show with respect to Philadelphia National Bank?

A. 45.7 per cent of the number of accounts and 58 per cent of the dollar volume of these accounts came from Philadelphia.

4.3 per cent of the number of accounts and 3.1 per cent of the dollar volume came from Delaware, Bucks, and Montgomery Counties.

50 per cent of the number of accounts and 61 per cent of the dollar volume of accounts came from the four counties combined.

9.8 per cent of the accounts and 10.8 per cent of the dollar volume came from elsewhere in Pennsylvania.

40.2 per cent of the number of accounts and 28.2 per cent [fol. 787] of the dollar volume of accounts came from all other places.

By Mr. Littleton:

Q. Doctor, did you make any study with respect to these 92 largest demand depositors of Philadelphia National Bank to ascertain whether they carried deposit accounts in banks in other areas?

A. No. I didn't do that.

Q. You did not?

A. No.

Q. Did you have any information with respect to that?

A. (No response.)

Q. Was such information furnished you?

A. I don't recall any. There may have been. I made no special study of it, if there was.

Mr. Littleton: All right.

Mr. Reycraft: I don't believe we know of any.

Mr. Littleton: Are there any other questions?

By Mr. Price:

Q. Dr. Gaffey, this heading of Table 30, which I have seen for the first time a few moments ago, speaks of the 100 largest demand deposits of the Girard Trust Corn Exchange and 92 largest demand deposits of the Philadelphia National Bank.

[fol. 788] Does that include any bank deposits?

A. I don't know.

Q. Didn't you endeavor to find out when you were making up the title of this exhibit whether it included or excluded the bank deposits which you now say are in a different category from other demand deposits?

A. I don't recall. I could check and find out.

Q. Will you please find out? You say this was in response to questions submitted by the plaintiff. Do you know what the question was?

A. Yes.

Q. To which the response was made?

A. It was Question No. 11.

Q. What did it ask for?

A. I'd have to get it.

Q. Will you please get it?

A. To say specifically.

Mr. Reycraft: Will you mark as Government's——

The Court: You may read it into the record.

Mr. Reycraft: All right, sir.

The Court: We don't need it as an exhibit.

Mr. Reycraft: "11. (a) For each year during the period January 1, 1956, to December 31, 1960, or such aliquot part thereof, state the name, address, business, and average [fol. 789] annual demand deposit account of $2,500 to $25,000 for each individual, partnership, and corporation in Philadelphia National Bank or Girard Trust Company, identifying the branch or home office in which the demand deposit account originated or is maintained, and, in addition, summarize such information by stating the number and dollar amount of such demand deposit accounts originating in (1) Philadelphia county, (2) the four county area (Philadelphia, Bucks, Delaware, and Montgomery), and (3) any other area, identifying such area.

"(b) Provide the same information as above for every demand deposit account of $25,001 to $50,000.

"(c) Provide the same information as above for every demand deposit account of $50,001 to $100,000.

"(d) Provide the same information as above for every demand deposit account of $100,001 to $500,000.

"(e) Provide the same information as above for every demand deposit account of $500,001 to $1,000,000.

"(f) Provide the same information as above for [fol. 790] every demand deposit account of $1,000,001 or more."

Now, there is a modification, Your Honor, to that question and this modification is contained, attached to a letter of May 3, 1961. It is entitled "Modifications of Questions Propounded by Plaintiff on April 28, 1961, as Agreed Upon by Counsel for the Parties, May 2, 1961."

With respect to Question 11 the attachment indicates the following:

"We will give the information requested (except the 'business' of each depositor) with respect to each deposit of $10,000 or over and the average balances thereof during the month of June, 1960. The addresses will be given on the same basis as mentioned in Question

2. With respect to deposits of under $10,000 we will give the same information as of June, 1960 (or other recent date) for 500 such deposits for both banks, selected at random, proportioned between the banks on the basis of the aggregate number of such deposits at each bank."

Dr. Gaffey, I hand you the whole document.

I might state for the record further that there was an oral agreement among counsel to reduce further the number [fol. 791] of samples to 100.

Mr. Price: The 100 largest.

Mr. Reycraft: Yes.

The Witness: The hundred largest; that's right.

By Mr. Price:

Q. The question asked of the Girard Trust Company did not purport to relate to the bank deposits, did it? It asked for IPC deposits, didn't it?

A. Yes. Yes, it did.

Q. Do you know whether it does or does not include banks, even though the question does not ask for banks?

Mr. Reycraft: May I hand Dr. Gaffey the data submitted?

By Mr. Reycraft:

Q. Dr. Gaffey, I am handing you the underlying data for both Philadelphia National and Girard.

Mr. Price: My only question was whether it included any bank deposits.

The Witness: I don't know. I'd have to look through the list. I don't recall any bank.

By Mr. Price:

Q. The banks were not asked for, were they?

A. (No response.)

[fol. 792] Q. In the question?

A. I believe not. By the form of that question, they were not asked for.

Q. All right.

And you were satisfied with the answer that was given?

A. (No response.)

Q. You were satisfied that the answer complied with the question, were you not?

A. Yes.

Q. My question now is shouldn't the heading of this exhibit show that it did not include any bank deposits, but was limited to the type of deposits which is designated familiarly as "IPC" deposits—individuals, partnerships, or corporations?

A. Yes. That would be proper.

Q All right. Then that is all this table purports to show for these accounts of the Girard Trust Company; is that right?

A. Yes.

Mr. Reycraft: My associates point out—and I don't know if Dr. Gaffey has had the opportunity to go through these 192 or more accounts—that there are banks included.

[fol. 793] Mr. Price: He can look very quickly on the sheet that he has in his hand. He has the Girard sheet there and he can see in a moment if there are no banks in it, I believe.

Mr. Reycraft: There are a hundred there. If you want him to look at it now he will have to do it. If you prefer to wait until after the noon recess I think that might be more efficient.

Mr. Price: It would take him about 15 seconds to run through that and see if there are no banks there.

Mr. Reycraft: Please do it, Doctor.

The Witness: I find no banks listed in the Girard.

By Mr. Price:

Q. I beg your pardon?

A. I find no banks listed in the Girard submission.

Q. And the submission was in response to the question, which did not include banks, did it?

A. (There was no response.)

Q. The question didn't ask for banks, did it?

A. The original question did not include banks.

Q. All right.

[fol. 794] A. I don't see how the modification—I mean, let me just look at that modification again.

Q. That makes no reference to banks, either, as Mr. Reycraft has read it.

A. I see no reference to banks.

Q. All right.

Then, so far as the Girard accounts are concerned, it does not include any bank deposits no matter how large they may be, whether they are within the hundred largest or not, does it?

A. No.

Q. And you have no information about the size of the bank deposits with the Girard, have you?

A. I don't know of any.

Q. And to the extent that bank deposits might be within the hundred largest, these figures would be inaccurate, would they not, so far as the title of the exhibit is concerned?

A. Yes.

Mr. Price: Thank you. That's all.

Mr. Littleton: No questions.

By Mr. Reycraft:

Q. Now, Dr. Gaffey, will you refer to the tables furnished to us by the Philadelphia National Bank, and tell me whether [fol. 795] there are any banks included within those deposits.

A. Yes. Yes, I find a bank on the first page

Q. Will you continue and indicate the name of each bank you find?

A. Easton National——

Mr. Littleton: Just a moment, if Your Honor please. This is all confidential information that was given to you as confidential.

The Court: He may give the numbers only without reference to the banks.

Mr. Reycraft: That is satisfactory.

The Witness: Do you wish me to give the figure without identifying what bank it is?

The Court: No, just the number of banks that appear there, without anything.

The Witness: Yes, sir.

By the Court:

Q. Have you found more than one?

A. Yes. I have found 20.

Q. 20? All right. That's close enough.

A. Some of them are foreign.

Mr. Reycraft: Will you agree, Mr. Littleton, that the [fol. 796] information given in response to Question 11 went beyond the questionnaire?

The Court: That it what?

Mr. Reycraft: Sir, we asked for IPC deposits—individuals, partnerships, corporations.

The Court: That isn't what I heard.

Mr. Reycraft: I believe this is the point that raises the question.

The Court: I don't know what the point is, but nowhere was there an ITC mentioned at any time in that question.

Mr. Reycraft: May I see Question 11?

The Court: At least, what you read to me wasn't——

Mr. Reycraft: Yes, sir. I may have skipped over it quickly, but in the fourth line of Question 11 it says deposits for each individual, partnership, and corporation in Philadelphia National Bank or Girard Trust; and the same informaiton was requested with respect to subcategories (b) through (f).

The Court: What is there about a bank that doesn't include that in corporations?

By Mr. Reycraft:

Q. May I ask Dr. Gaffey if your understand is correct [fol. 797] that the category "Individuals, Partnerships, and Corporations" does or does not include banks?

A. Well, the way they classify figures for reporting bank statements of condition, they report bank figures separately from other individuals, partnerships, and corporations.

Q. So the way the Federal authorities allocate their accounts, although banks are corporations, this category does not include banks?

A. That's correct, yes.

Mr. Reycraft: So would it be correct, Mr. Littleton, that your response to Question 11 went beyond the category of individuals, partnerships, and corporations?

Mr. Littleton. No. Our responses to that question and other questions and to the modification, and the last modification was the hundred largest accounts; and when the information was given to you you could see plainly that there were banks included, and you didn't ask for anything else.

Mr. Reycraft: All right.

And you did not limit your response to individuals, partnerships, and corporations?

Mr. Littleton: No, no. The top hundred is what we gave [fol. 798] you.

Mr. Reycraft: May I ask Mr. Price whether his list of the hundred largest accounts includes banks?

Mr. Price: Dr. Gaffey just examined it and saw that it did not.

Mr. Reycraft: Is this all of your hundred largest accounts or is it individuals, partnerships and corporations?

Mr. Price: Individuals, partnerships, and corporations; just what was asked for.

Mr. Reycraft: So if you had a bank in that category it would not be included?

Mr. Price: That's right. It wouldn't be in the list that was asked for.

Mr. Reycraft: I think you and Mr. Littleton may have understood it differently.

Mr. Price: I read IPC as meaning the category which Dr. Gaffey has described, as excluding banks.

Mr. Reycraft: That is the way I read it.

Will you mark for identification as Government's Exhibit No. 31——

By Mr. Price:

[fol. 799] Q. Before we leave that then, Dr. Gaffey, this Table 30 carries two categories of deposits, although there was only one title?

A. Yes.

Q. And the title describes one accurately and the other inaccurately?

A. Yes.

Q. Is that correct?

A. Yes, that's correct.

Mr. Price: That's all, thank you.

The Court: Let's recess now until 2:00 o'clock.

(Recessed for luncheon at 12:00 until 2:00 o'clock P.M.)

[fol. 800] [File endorsement omitted]

AFTER RECESS

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 31, Table 31, headed "The Philadelphia National Bank, Number and Location of Savings Accounts and Time Deposits Under $10,000 as of March 31, 1961."

(Document headed "Table 31, The Philadelphia National Bank, Number and Location of Savings Accounts and Time Deposits Under $10,000 as of March 31, 1961" was marked Exhibit G-31 for identification.)

Q. Dr. Gaffey, referring to Government's Exhibit No. 31, what is the source of the data which is contained in this exhibit?

A. This was prepared from information which was submitted to the Government by the Philadelphia National Bank in response to a question, Question 13, propounded by the Government to the bank on April 28, 1961, and modified on May 2, 1961.

Q. Did you change the breakdown which was contained in the response of the defendants to Question 13?

A. Yes.

Q. In what respect, please?

A. Well, they showed the four-county area, Philadelphia, [fol. 801] Delaware, Bucks, and Montgomery Counties, and then the 11-county area including those four counties and Chester County, Pennsylvania, Burlington, Camden, Gloucester, Mercer, and Salem Counties, New Jersey, and New Castle County, Delaware.

Q. So that the seven-county area is obtained by subtracting the four-county area from the eleven-county area which was contained in the original; is that correct?

A. That is correct, yes.

Q. Now, with respect to the four-county area, what does the analysis show?

A. It shows that Philadelphia National Bank had 88,055 time deposits under $10,000 in the four-county area, or 94.5 per cent of the total number of such accounts.

Q. And with respect to the seven surrounding counties, what does the analysis show?

A. It shows 3,254 of these savings accounts in those seven counties, or 3.5 per cent of the total.

Q. And how many would be outside the eleven-county area?

A. 1,864, or 2 per cent of the total number.

Q. What does the analysis show with respect to time deposits under $10,000?

A. In the four-county area it shows 72.7 per cent of the [fol. 802] accounts and 65.1 per cent of the dollar volume.

Q. And with respect to the seven-county surrounding area what does it show?

A. It shows 4.6 per cent of the accounts and 8.7 per cent of the dollar volume.

Q. And outside the 11-county area?

A. It shows 22.7 per cent of the accounts and 26.2 per cent of the dollar volume.

Q. Is the information contained in the first half of the exhibit under the heading "Savings Accounts" total figures or a sample?

A. I think these are total figures.

Q. Are they totals also in the time deposits or samples? There are 15 accounts shown.

A. I think that is the total number that they reported. I believe the dollar amount figures there should have been—it should have been stated here—no. I started to say I thought there were thousands of dollars, but they are not. They are the correct amounts.

Mr. Littleton: Keep your voice up. I didn't hear you.

The Witness: I started to make a correction, but I retracted it. I don't think any correction was warranted. [fol. 803] I think the figures are right as they stand.

By Mr. Littleton:

Q. Do you know whether the figures in the savings accounts were based on a sampling?

A. I don't recall.

Q. Will you look at your figures under "Time Deposits Under $10,000." What do you have as the number for the four-county area?

A. 15.

Q. Where did you get that figure?

A. Well, this was the response to the Government's Question 13 in a letter dated May 27, 1961.

Q. Will you add up the column.

A. There appears to be one missing some place.

Q. I think you will find it should be 16, Doctor.

A. Yes.

Q. Do you agree?

A. Yes, it appears to be. That is a correction, yes.

Q. You said the time deposits were absolute figures, did you not, Doctor?

A. I said I believe they are, to the best of my recollection.

Q. What?

A. I believe they are.

[fol. 804] Mr. Littleton: Do you agree, Mr. Reycraft?

Mr. Reycraft: On the time deposits, yes, they are.

Will you mark for identification as Government's Exhibit No. 32, Table 32, entitled "Relative Ranking of the Five Largest Philadelphia Banks By Total Deposits."

(Document entitled "Table 32, Relative Ranking of the Five Largest Philadelphia Banks By Total Deposits" was marked Exhibit G-32 for identification.)

By Mr. Reycraft:

Q. Dr. Gaffey, will you describe the source of the information contained in Government's Exhibit 32.

A. This information was obtained from the report made by the Board of Governors of the Federal Reserve System to the Comptroller of the Currency with respect to this proposed consolidation of the Philadelphia National Bank and Girard Trust Corn Exchange Bank.

Q. And what does the exhibit show with respect to the relative ranking of the five largest banks?

A. The actual figures prior to the consolidation show the largest bank on the basis of 100, and Philadelphia National Bank was almost as large. It was 97 per cent as large.

[fol. 805] Girard was third in size, and its total deposits were 65 per cent of the total deposits of the largest banks. The No. 4 bank, Provident Tradesmens, was 45 per cent. That is, their deposits were 45 per cent of those of the largest bank; and Fidelity Philadelphia, the fifth largest bank, was 42 per cent as large as the largest in terms of total deposits.

Q. And after any consolidation what would be the relative ranking?

A. If they had been consolidated, then the combination of Philadelphia National and Girard would of course be the largest, and the next largest bank would be only 62 per cent as large as this combination. The third largest bank would be only 28 per cent as large as this combination. The fourth largest bank would be 26 per cent of this combination, and the fifth largest bank, Central Penn, would be 15 per cent of the size of this combination.

By Mr. Littleton:

Q. Doctor, just one little question here. My copy says, "Relative Banking of the Five Largest Banks." That should be "Ranking"?

A. That is "Ranking," yes, relative ranking of the five largest Philadelphia banks.

[fol. 806] Mr. Littleton: No other questions.

Mr. Reycraft: Gentlemen, I would like to go next to what has been marked informally as Government's Exhibit No. 40, which is a list of the acquisitions of the Girard Trust Corn Exchange Bank and mark it as Government's Exhibit No. 33.

(List of acquisitions of Girard Trust Corn Exchange Bank was marked Exhibit G-33 for identification.)

Q. Dr. Gaffey, referring to Government's Exhibit No. 33, what is the source of the information contained in that exhibit?

A. This information came from the application which Philadelphia National Bank and Girard Trust Corn Ex-

change Bank filed with the Comptroller of the Currency. It is entitled "Application for Approval to Merge" and was filed with the Comptroller on November 15, 1960.

Q. And this application was signed by the presidents of the two banks; is that correct?

A. Yes.

Q. Now, with respect to Government's Exhibit No. 33 what is the first merger or consolidation indicated on the exhibit?

[fol. 807] A. This is the Corn Exchange National Bank and Trust Company.

Q. And what is the location of the offices involved in the merger between the Corn Exchange National Bank and the Girard?

A. The head office or downtown office of Corn Exchange National Bank and Trust Company was at Second and Chestnut Streets in Philadelphia, and then it had—do you want all the other offices?

Q. Yes, if you will.

A. 11 other offices, and they are located at—one is called the central city office, at 1510-12 Chestnut Street in Philadelphia, which has since been closed. It was an office at the time of this merger, but it was closed on March 26, 1954.

The Oxford (Frankford) office at Frankford and Oxford Avenues in Philadelphia.

The Arch Street office, at Third and Arch Streets in Philadelphia.

A West Philadelphia office, at Sixtieth and Ludlow Streets in Philadelphia.

A Wissinoming office, at Torresdale Avenue and Howell Streets, Philadelphia.

A Germantown Avenue office (Germantown and Lehigh), [fol. 808] at 2721-27 Germantown Avenue, Philadelphia.

A Burholme office, at Rising Sun and Cottman Avenues, Philadelphia.

An Orthodox office, at Orthodox Street and Torresdale Avenue in Philadelphia.

A Bridesburg office at Ash Street at the intersection of Thompsor and Kirkbride Streets in Philadelphia.

A Spring Garden Street office, at Twelfth Street, Ridge Avenue, and Spring Garden Street, in Philadelphia.

And a West Oak Lane office, at 7179-81 Ogontz Avenue, Philadelphia.

Q. What does the exhibit indicate with respect to the areas served?

A. All of these offices were located in the City of Philadelphia, two in the general business and commercial areas of the central city, two in the commercial, industrial and foreign trade area of downtown, five in the commercial and residential areas of Northeast Philadelphia, and one each in the commercial and residential area of West and North Philadelphia.

Q. And what does the exhibit indicate with respect to the type of banking business in which the Corn Exchange [fol. 809] was engaged?

A. It says that they did a general banking business covering all commercial and personal types, including foreign as well as general trust business.

Q. And what were the loans and deposits?

A. The loans were $96,791,000. Their deposits were $288,618,000. This was as of June 15, 1951.

Q. And what does the exhibit indicate with respect to the next merger?

A. The National Bank of Germantown and Trust Company in Philadelphia was merged on September 11, 1953.

Q. And where was its head office located?

A. In Germantown, at Germantown Avenue and School Lane in Philadelphia.

Q. And what was the area served by that office?

A. It is described as one of the old residential sections of Philadelphia which includes a large commercial section, and in addition there are a number of industrial plants within easy transportation distance.

Q. And this bank also engaged in general banking and trust business?

A. Yes, it did.

Q. And what were the loans and deposits involved in this acquisition?

[fol. 810] A. At the time of the merger its total loans were $9,781,000 and its deposits were $35,371,000.

Q. What is the next merger indicated by the exhibit?

A. The North Philadelphia Trust Company.

Q. What does the exhibit indicate with respect to the office and the area served by that bank?

A. Its head office was in North Philadelphia at [illegible] Germantown Avenue in Philadelphia. It served the North

Central part of the city. It had many personal accounts, but it was located in a relatively large commercial district.

Q. And did it also engage in the general banking business?

A. Yes, it engaged in a general banking business, was active as an agent for real estate settlement and title business also.

Q. What were the loans and deposits involved in that acquisition?

A. As of the merger date, which was January 22, 1954, it had loans of $5,409,000 and deposits of $19,146,000.

Q. What is the next merger indicated by the exhibit?

A. The National Bank of Narberth was merged on October 11, 1957.

Q. And where were the offices and what were the areas [fol. 811] served by that bank?

A. Its head office was in Narberth at Haverford and Essex Avenue, Narberth, and it had two other offices, one at Wynnewood, at 18 East Wynnewood Road, and one at Bala-Cynwyd, at No. 1 Bala Avenue, Bala-Cynwyd, Pennsylvania. It is described as an older residential section in a quality suburban residential area. A relatively large commercial development exists in Narberth, however, and there are additional businesses nearby. The branches are located in two shopping centers which have developed in this general area.

Q. And did this bank also engage in general banking business?

A. Yes, it did.

Q. And what were the loans and deposits involved in this acquisition?

A. Its total loans were $1,467,000. Its total deposits were $12,539,000.

Q. What is the next acquisition indicated by the exhibit?

A. The Ambler National Bank was merged on October 11, 1957, the same date as the National Bank of Narberth.

Q. And where was the head office and the area served [fol. 812] of the Ambler Bank?

A. Its head office was at Butler Avenue and Spring Garden Street in Ambler. It also had an office at Flourtown on Bethlehem Pike and Wissahickon Avenue, and Fort Washington, in Fort Washington Industrial Park.

It served Ambler and vicinity, and an older residential section with substantial new residential development. The area also has a commercial development expanding into regional shopping areas. There are a number of industrial concerns in that general area, particularly around that Fort Washington Industrial Park.

Q. Did Ambler also engage in the general banking business?

A. It did.

Q. And what were the loans and deposits involved in that activity?

A. Its loans were $3,568,000. Its deposits were $8,799,000. [fol. 813] Q. What is the next acquisition following this?

A. The Upper Darby National Bank was merged on April 25, 1958.

Q. Would you describe the branch offices and the area served by that bank?

A. The head office was in Upper Darby, at 6908—10 Market Street, and it had branch offices at the following places—the PTC Terminal at Market and 69th Streets in Upper Darby, in the Upper Darby Drive-In, at Glendale Road and Ludlow Street, also in Upper Darby; Drexel Hill office at 4211 Fern Boulevard, Drexel Hill; Havertown, at 1625 East Darby Road in Havertown; in Yeadon, at 712½ Church Lane, Yeadon; Broomall, at West Chester Pike and Summit Avenue, Broomall; Newtown Square, 3533 West Chester Pike, Newtown Square; Pilgrim Gardens, at 1021 Pontiac Road, Pilgrim Gardens, Drexel Hill; at Manoa, in the Manoa shopping center at West Chester Pike and Eagle Road, Havertown; Lawrence Park, in the Lawrence Park shopping center, Lawrence and Sproul Roads, Broomall; Penn Oak, at the Penn Fruit building, Baltimore Pike and Oak Lane, in Upper Darby Township, although the post office is given as Clifton Heights.

Q. And the area served?

A. It's a suburban residential area with substantial commercial development and with regional shopping centers. [fol. 814] It is a transportation center, also.

Q. And this bank was also engaged in the general banking business?

A. It was described in the application as principally a

retail—principally a general retail banking business, including all types of service.

Q. And what were the loans and deposits involved in that acquisition?

A. The loans of this bank were $22,302,000 and the deposits were $48,311,000.

By Mr. Price:

Q. What you have been saying now in answer to Mr. Reycraft's question was a paraphrase of information which was given more fully on the sheets of the Exhibit G-33, was it not?

A. Some of it was read directly and some of it was shortened a little bit or paraphrased, yes.

Q. You didn't purport to read every word?

A. I didn't read every word.

Q. And you gave the substance of the material, but in your own language rather than in that of the exhibit in most cases?

A. Yes, although I followed fairly closely the exhibit.

Q. Oh, yes, but it doesn't purport to be a complete recital of everything that is in the exhibit?

A. No.

[fol. 815] Q. Now, this exhibit was made up from the application, you say?

A. Yes.

Q. I notice that on the top of the second page of the exhibit is "Historical Background—Girard Trust Corn Exchange Bank—Cont'd."

How much was omitted?

Mr. Reycraft: Will you refer to the application?

The Witness: Some of the historical material was omitted, the date when the bank was founded, and it's about a hundred years old, more than a hundred years old.

I did not go through this history. This is a detailed summary of the acquisitions of the bank within the last ten years.

By Mr. Price:

Q. And in the application itself that was a part of the application entitled "Historical Background—Girard Trust Corn Exchange Bank," was it not?

A. Well, I am not sure of the exact title. I don't have it in front of me.

It was a historical statement.

Q. So that I can go through quickly, perhaps Mr. Reycraft will give you the application and then you can indicate [fol. 816] what portions were omitted.

A. Yes. The material——

Q. Page 22?

A. Yes. The material in this exhibit starts on page 23.

Q. Yes, but the historical-background material actually began on page 22 of the application, did it not?

A. Yes, it did.

Q. And all of the material on page 22 was omitted?

A. Yes.

Q. And all of the material on page 23 was omitted, except the last four lines?

A. Yes.

Q. And then, continuing on, you included in the exhibit the material that appears in full on pages 24 through 28, did you not?

A. Let me check that for a minute.

Yes.

Mr. Price: That's all, thank you.

Mr. Reycraft: Will you mark for identification as Government's Exhibit 33-A a document which was marked informally among counsel as Government's Exhibit 41?

Mr. Price: 33-A?

Mr. Reycraft: This exhibit is entitled, on the first page, or begins with the words "Ninth Bank And Trust Com- [fol. 817] pany," and consists of six pages of acquisitions by Philadelphia National Bank.

(Document headed on the first page, "Ninth Bank And Trust Company," consisting of six pages, was marked Exhibit G-33-A for identification.)

By Mr. Reycraft:

Q. Now, this information was taken, was it not, from the application beginning at page 18, Dr. Gaffey?

A. I believe it starts on page 17.

Q. 17; all right.

Now, this information was also based on the application signed by the presidents of the two banks; is that correct?

A. Yes.

Q. And what did it show with respect to the first acquisition indicated by Philadelphia National Bank?

A. The first acquisition of Philadelphia National Bank in this period was the Ninth Bank And Trust Company, which was merged on September 21, 1951.

Q. What were the offices involved and the area served by the Ninth Bank And Trust Company at the time that it was acquired by the Philadelphia National Bank?

A. This bank's head office was at Front Street, Front and Norris Streets in Philadelphia. It had four branches—[fol. 818] the Allegheny, at Allegheny and Kensington Avenues in Philadelphia; the Northern Branch at Seventh and Dauphin Streets, Philadelphia; the Fairhill Branch at Front Street and Allegheny Avenue; and the Erie Branch at Erie and Kensington Avenues, Philadelphia, which was subsequently moved to 1501-07 East Erie Avenue, Philadelphia.

Q. What does the exhibit indicate with respect to the area served by this bank?

A. It served the older Northeast Section of Philadelphia, which is residential but interspersed with many industrial plants and many small and medium-sized retail stores.

Q. Was this bank engaged in the general banking business?

A. It was described as doing a general banking business, including complete trust services and retail services, such as personal loans and special checking accounts.

Q. What were the loans and deposits at the time of the acquisition?

A. The total loans of this bank at the time of the acquisition were $6,677,000 and its total deposits were $50,739,000.

Mr. Littleton: If Your Honor please, I don't know what Your Honor's wishes might be, but so far as we are concerned, we are perfectly willing that G-33-A, subject to checking against the application, be submitted without having this witness read it to all of us.

[fol. 819] Mr. Reycraft: I think that a general description of the bank acquired would be sufficient, Your Honor.

I don't think it is necessary to go into detail, but I think the area served and the location of the offices and the amounts of the loans and deposits, for example, are significant in assessing the over-all effects of the competition eliminated by these acquisitions.

Mr. Littleton: I don't understand that the witness is testifying from his own knowledge. He is reading something that we are perfectly willing to stipulate. In fact, we are perfectly willing to stipulate the entire application to the Comptroller as part of the record in this case as so signed and said.

So far as this is concerned, even though he has omitted a page and a half of the application in this exhibit, we are perfectly willing to stipulate, I say, subject to checking of the application.

Mr. Reycraft: I think a general description for the record would be quite useful, and particularly with respect to the deposits and the area served, because this is the type of thing, as I have said, which is fairly fundamental in the case.

The Court: Prove your case your way.

Go ahead.

[fol. 820] By Mr. Reycraft:

Q. Dr. Gaffey, the next acquisition indicated is the First National Bank of Conshohocken. Will you just briefly describe the area served, the type of business, and the deposits and loans?

A. The head office is at Fayette and Hector Streets at Conshohocken and was subsequently moved to Fifth and Fayette Streets in the same town.

The bank did a general banking and trust business.

Conshohocken is described as a residential and industrial area, with some large industrial plants and with a retail shopping section.

This bank, at the time of the acquisition on September 25, 1953, had loans of $3,409,000 and deposits of $14,890,000.

Q. All right.

With respect to the next acquisition, will you just refer to the location of the offices, the type of business, and the loans and deposits?

A. The Chester-Cambridge Bank & Trust Company was merged on February 20, 1954.

I am sorry, what areas did you say? Do you want the offices?

[fol. 821] Q. Yes, the location of the offices.

A. The head office in Chester, on Market Street, other offices, one other office at Marcus Hook.

Chester is a residential area with many industrial plants, some of which are large.

It does or did a general banking and trust business.

The total loans of this bank at the time of acquisition were $6,647,000. Its deposits were $26,978,000.

Q. What is the next acquisition indicated by the exhibit?

A. The First National Bank of Lansdale was acquired on February 20, 1954. Its office was on Main Street in Lansdale.

Lansdale is a residential community surrounded by an agricultural area, but with a number of industrial plants in that area.

It did a general banking and trust business.

Its loans at the time of acquisition were $5,627,000. Its deposits were $14,472,000.

Q. What is the next acquisition indicated?

A. The Montgomery National Bank of Norristown, merged on February 20, 1954.

The office of the bank was on Main Street in Norristown.

[fol. 822] Norristown is the County Seat of Montgomery County, a residential center with many industrial enterprises and a fairly large retail shopping section. Several industrial parks and shopping centers are nearby.

Q. And it also engaged in general banking and trust business?

A. Yes, it did.

Q. And the loans and deposits acquired?

A. The loans were $1,788,000 and the deposits were $10,401,000.

Q. What is the next acquisition indicated?

A. The Hatboro National Bank on December 9, 1955. Its office was at 210-12 South York Road in Hatboro.

Hatboro is a residential community with a number of industrial enterprises.

Q. And it also engaged in the general banking and trust business?

A. Yes.

Q. And its loans and deposits?

A. Its loans were $2,795,000 and it had total deposits of $9,118,000.

Q. What is the next acquisition indicated?

A. The Citizens National Bank and Trust Company of [fol. 823] Pottstown was acquired December 9, 1955. Its office was on High Street in Pottstown.

Pottstown is a heavily industrialized area, with a number of large plants; also a residential community with a fairly large retail shopping center.

Q. And it engaged in the general banking and trust business?

A. Yes, it did.

Q. Its loans and deposits?

A. It had total loans of $3,633,000 and deposits of $8,478,000.

Q. What is the next acquisition?

A. Delaware Valley Bank and Trust Company was acquired on November 9, 1956. Its head office was in Bristol, 200 Radcliffe Street, Bristol. It also had offices at Levittown, Midway, Southampton, and Yardley.

Q. And it also engaged in a general banking and trust business?

A. It did.

Q. What were its loans and deposits?

A. Loans of $11,502,000 and deposits of $26,124,000.

Q. What is the next acquisition indicated?

A. The Gimbel Brothers Bank and Trust Company and the procedure was a little different. It was acquired by [fol. 824] purchase of assets and assumption of the deposit liabilities on July 11, 1958.

The office is at 35 South 9th Street.

Q. What type of business did this bank engage in?

A. It's very near here, it's in the center-city district, commercial section of city.

Q. And it primarily had personal checking and savings accounts?

A. Yes.

Q. And it had no loans; and what were the deposits?

A. The total deposits were $11,768,000.

By Mr. Littleton:

Q. Doctor, none of the testimony you have been giving here is of your own knowledge as all, is it, saving as you read from this exhibit?

A. I acquired my knowledge——

Q. From this exhibit?

A. —from this exhibit, yes.

Q. And this exhibit, in turn, is taken from the application which the two defendant banks made to the Comptroller of the Currency for merger in this case; is that correct?

A. Yes.

Q. Look at the second, third, fourth, and fifth pages of your Exhibit G-33-A and tell me what the first line of [fol. 825] each is.

A. The first line of G-33-A is "Ninth Bank and Trust Company."

Q. No, I said the second page, the third page.

A. The first line is, "Hisforical Background—Philadelphia National Bank—Cont'd".

Q. Continued, so that you took this from the section of the application which begins on Page 16 of the application, did you not, and it is headed "Historical Background—Philadelphia National Bank;" is that correct?

A. Well, this exhibit begins on Page 17, but the section of the application from which it is taken begins on Page 16, yes, sir.

Q. It begins on Page 16?

A. Yes, sir.

Q. And that is where this historical background which entitles the pages of your exhibit begins, is it not?

A. Yes.

Q. And that "Historical Background—Philadelphia National Bank" is given in answer to the requirement appearing just above it on Page 16 of the application as follows:

> [fol. 826] Information provided by the applicant should include the date of primary organization of each participating bank and in chronological order with respect to each such bank the date of any reorganization, merger, consolidation, acquisition of assets, or assumption of deposit liabilities occurring during the past ten years, and the name and location of the head office and branches, description of areas served, type of

business conducted, total loans and total deposits of each bank that is continue operations as a result of such transaction, did it not?

A. Yes.

Q. But you haven't given us all of the information which appears and which precedes what you have read to us; isn't that correct?

A. That's right. This is a detailed statement of the acquisitions of Philadelphia National Bank within the last ten years.

Q. This is part of the historical background, is it not, of the Philadelphia National Bank?

A. Yes.

Q. And you didn't give us all of the historical background, [fol. 827] did you, of the Philadelphia National Bank?

A. I didn't give all of the historical background that you put in the application to the Comptroller.

Q. I am going to ask you now, in order to make your answer complete, if you will just read to us from Page 16, beginning with historical background, down to the place where Ninth Bank and Trust Company comes in.

Mr. Reycraft: I object. We don't wish to offer that evidence.

If you wish to, Mr. Littleton, in your capacity, that is another matter; but we don't wish to offer it.

Mr. Littleton: You are going to offer only part of something which appears in the application and not all of it?

Mr. Reycraft: We are going to offer facts and materials in the application, which is signed by the presidents of both banks, which appears to us to be reliable and which appears to be relevant to our case.

Mr. Littleton: If Your Honor please, I press my question of the witness.

The Court: Read the question.

[fol. 828] (The reporter read the pending question as follows:

"Q. I am going to ask you now, in order to make your answer complete, if you will just read to us from Page 16, beginning with historical background, down to the place where Ninth Bank and Trust Company comes in.")

The Court: How many pages is that?

Mr. Littleton: About a page and a quarter.

The Court: The objection is overruled. He may answer.

The Witness: Historical background—Philadelphia National Bank.

> The Philadelphia National Bank (originally organized in 1803 as the Philadelphia Bank) was chartered on October 20, 1864 under an Act of Congress approved June 3rd of that year.
>
> On April 1, 1926 it merged with the Girard National Bank to form the Philadelphia-Girard National Bank. At the time of this merger Philadelphia National was much the largest bank in Philadelphia, with deposits of $140,000,000, loans of $103,000,000, and total assets of $165,000,000. Girard National was the fourth largest [fol. 829] with deposits of $73,000,000, loans of $47,000,000, and total assets of $87,000,000. Fidelity-Philadelphia Trust Company was second largest and Pennsylvania Company for Insurances on Lives, et cetera, was third, with total resources of $120,000,000 and $100,000,000 respectively.
>
> Two years later Philadelphia-Girard merged with the Franklin-Fourth Street National Bank (which had been formed by merger in the meantime) and took the name of the oldest of the four banks originally concerned, the Philadelphia National Bank. The announcement that the merger had been ratified attracted wide popular acclaim——

Mr. Reycraft: Now, at this point, Your Honor, I would like to renew my objection because we don't know where the acclaim came from.

This is a statement, of course, which is being made by the presidents of the two banks who signed the application. It goes next into an extract from a newspaper article on March 3rd of 1928 and I submit it is the purest kind of hearsay.

If the presidents of the two banks wish to testify with respect to newspaper articles, I think we can meet that [fol. 830] when it arises, but this is precisely the reason and I think it illustrates the point of our omitting information of this type from the exhibit which we prepared.

To the extent that the exhibit shows facts and material I think if it can be substantiated and it is reliable, that is one matter; but to the extent that it quotes newspaper articles and speaks of wide popular acclaim, I don't think I even know what that is.

I think if Mr. Littleton wants to put it in he ought to do it in his case.

Mr. Littleton: If Your Honor please, the exhibit which has been offered here, G-33, on at least four or five pages heads it "Historical Background—Philadelphia National Bank."

The witness has said he didn't give us all the historical background and my question is simply to get the entire historical background in.

Mr. Reycraft: I will be happy to eliminate the heading, "Historical Background—Philadelphia National Bank" because I think it would probably take more time than the Court would wish to take.

The Court: Are we up to the last merger?

Mr. Reycraft: Yes, sir.

The Court: Of the Philadelphia National Bank, in 1928, [fol. 831] up to 1950?

Mr. Reycraft: I don't know that, Your Honor.

To the extent that it is shown in the application, we have those facts. Now, if they have had any additional mergers that are indicated——

The Court: I can't see where you raise an objection, Mr. Reycraft, to what has been read up to this time because that certainly is historical background.

Mr. Reycraft: Well, there is a lot of historical background, Your Honor, which we might get from the newspapers, which I don't think would be good evidence.

The Court: I am not talking about the newspapers. I am talking of the fact of the mergers.

Mr. Reycraft: Up to that point, I would certainly agree.

The Court: That is what you objected to originally and I couldn't understand the purpose of your objection.

Mr. Reycraft: We have passed that, Your Honor, and my objection only goes to the hearsay.

The Court: All right.

I think we have gone far enough if the rest of it is a question of public reaction and so forth.

Mr. Littleton: If Your Honor please, only the quotation [fol. 832] on the foot of page 16 is a quotation from The Philadelphia Record, but on the top of page 17 which succeeds that there is a great deal more to the historical background which leads up to these mergers; and I think it should go in.

The Court: State your reason for it.

Pass it up here. Let me look at it.

Mr. Reycraft: My objection, Your Honor, goes to the question here of the attractiveness of a merger in holding customers. I don't know that. I can't represent that it is an accurate statement, and I can't ask Dr. Gaffey to testify to it.

Mr. Potts and Mr. Brown both signed the application. If they wish to testify to something of this nature I can cross-examine them, and then Your Honor can rule on it.

The Court: I can readily understand why you don't want it to go in in your case.

Mr. Littleton: Conversely, you can understand why I want it to go in here.

Mr. Reycraft: I think we all understand.

The Court: I think we have gone far enough on that. I think the historical background is undoubtedly part of your case, Mr. Littleton, so we will stop where we are.

Mr. Littleton: No more questions.

[fol. 833] Mr. Reycraft: I would like to ask one of my associates to take out Exhibit 33-B, which would be the large chart.

This chart, which we will mark as Exhibit 33-B, indicates the origin of the two banks as the information is set forth in the exhibits which have just been produced.

Mr. Price: I am sorry, Mr. Reycraft. When you are facing that way, I just can't hear you.

Mr. Reycraft: The information contained in the Exhibit G-33-B is based upon the exhibits which have just been identified, and I have reproductions which I will ask the reporter to mark as Exhibit 33-B.

May I hand a copy to the Court?

The Court: I have a reproduction of it.

Mr. Reycraft: Yes, sir, it is a small reproduction. It may be difficult to read. This is a larger one.

(Chart entitled "Financial History of the Philadelphia National Bank and Girard Trust Corn Exchange Bank" was marked Exhibit G-33-B for identification.)

By Mr. Reycraft:

Q. Referring to Government's Exhibit 33-B, Dr. Gaffey, [fol. 834] do the acquisitions after 1950 show the origin with respect to the counties indicated?

A. Yes. In each case the county of each acquired or merged bank is shown.

Q. And the other information contained in the exhibit is basically the information which you described in your testimony; is that correct?

A. Yes.

Q. Will you indicate, with respect to Government's Exhibit No. 33-B, the total banking offices acquired by the Philadelphia National Bank, as indicated in the top right-hand corner?

A. During the past ten years, you mean?

Q. Yes. Why don't you begin earlier with the first group of acquisitions, the three banking offices acquired?

A. The original bank was the Philadelphia Bank, and it acquired the Girard National Bank at some early date, a date which was not given here, and it became the Philadelphia National Bank in 1864. Then it acquired the Franklin-Fourth Street National Bank. All of the acquisitions of this bank in its 158 years are not shown. The acquisitions are shown in detail from 1951 on.

As of December 31, 1950, the Philadelphia National Bank had three banking offices. In the next 10 years it expanded [fol. 835] to 27 banking offices, most of that expansion being by acquisitions.

Q. And with respect to the Girard, what does the exhibit indicate?

A. Well, Girard also had a long history from the early 19th century—the Girard Savings Institution of Philadelphia, the Girard Beneficial Association, 1835, Girard Life Insurance Annuity and Trust Company, in 1836, and the Girard Trust in 1899. It also had roots in the Corn Exchange National Bank and Trust Company, which was incorporated in 1858.

Just prior to the time those two banks were merged, that is, on December 31, 1950, the Corn Exchange National Bank had 12 banking offices and the Girard Trust had one banking office. They were combined into the Girard Trust Corn Exchange Bank on June 15, 1951.

Q. So that as of 1960, how many banking offices did the Girard have?

A. 38.

By Mr. Littleton:

Q. Doctor, if you will address yourself to that part of this chart which has to do with the Philadelphia National Bank, look at the block which has in black "The Philadelphia [fol. 836] National Bank, 1928." Do you see it?

A. Yes.

Q. Now look to your right, to the block which is surrounded with dotted lines, which says "Three banking offices, $745,000,000 deposits as of December 31, 1950."

You say at the foot of this chart, sources of information, "Application for approval to merge."

Will you show us in the application for approval to merge where you got the information of $745,000,000 of deposits, three banking offices, as of December 31, 1950.

A. Well, it is in that portion of the historical background that you wanted me to read and Mr. Reycraft did not want me to read.

Q. I think now I better have you read it.

Mr. Reycraft: I have no objection, Your Honor, to the fact of that, that there were $745,248,000 of deposits, being admitted in evidence.

Mr. Littleton: I would like you to read from the historical background where he gets the figures that he has got in this block. I ask him to read it.

Mr. Reycraft: I have no objection to his indicating the page from which he got the information.

[fol. 837] The Court: He will read it.

The witness: All right. It is on Page 17, the second paragraph on that page. The top of the page is entitled "Historical Background—Philadelphia National Bank (Continued)."

"The wholesale nature of its business up until 1951 is evidenced by the fact that its $745,248,000 of deposits

at the end of 1950 were held in less than 11,000 accounts, of which about 1,000 accounts were from domestic and foreign correspondent banks. It operated only three banking offices."

Mr. Littleton: Go ahead.

By Mr. Reycraft:

Q. And that is the information on which you relied, is it not, Dr. Gaffey?

A. Yes.

The Court: We will take a 10-minute break at this point.

(A 10-minute recess was taken at 3:05 P.M.)

Mr. Littleton: I have no other questions.

By Mr. Reycraft:

[fol. 838] Q. Dr. Gaffey, just by way of tying together all of this historical background, will you refer——

The Court: If you are going to tie in all the historical background, I will let him read it all.

Mr. Reycraft: It is referred to in Exhibit 33, Your Honor, with respect to the proposed merger, the banking offices and deposits involved. I might say it indicates 65 banking offices in the four counties, with the total assets, total deposits, and loans indicated.

By Mr. Price:

Q. Dr. Gaffey, this material that is to the left of the double bar on the lower portion of Exhibit 33-B, related to the Girard Trust Company, came from what source?

A. It came from the application.

Q. So that all the information relating to the Girard Trust Corn Exchange Bank is shown on this exhibit came from the application, either the portion of the historical background that you didn't read, which you omitted from your Exhibit 33, or the portion that was included in the Exhibit 33?

[fol. 839] A. No, sir, that is not correct. Do you wish me to explain?

Q. Yes, please do. I thought I understood you, but apparently I didn't.

A. It all came from the application except the material at the very end in the largest block on the right, which shows the effect of the proposed merger in the dotted lines in the large block on the right, the 65 banking offices in Philadelphia, Bucks, Delaware, and Montgomery Counties, with the combined total assets $1,931,000,000, the combined total deposits of $1,710,000,000 and the combined total of loans of $935,000,000 on December 31, 1960. That material came from the reports of condition of Philadelphia National Bank and of Girard Trust Corn Exchange Bank which were submitted to the Government at the Government's request.

Q. Then except for that large dotted square on the right, all the other material came from the application, did it not?

A. Well, except for that large square and the two smaller squares that are joined to it, it did come from the application. The material in the large square and the two smaller squares, one immediately above it for Philadelphia National and one immediately below it for Girard, came [fol. 840] from the statements of condition as of December 31, 1960.

Q. All right, then everything to the left of the three squares, one large and two small, came from the application?

A. Yes.

Q. Either from the pages that you failed to read or from the pages which you did read or both?

A. Yes.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 34 a document entitled "Chart II," headed "Concentration of Assets of Insured Commercial Banks in Philadelphia as of June 30, 1950, and June 30, 1960, and Effect of Proposed Merger Upon Such Concentration."

(Document entitled "Chart II, Concentration of Assets of Insured Commercial Banks in Philadelphia as of June 30, 1950, and June 30, 1960, and Effect of Proposed Merger Upon Such Concentration" was marked Exhibit G-34 for identification.)

Q. Dr. Gaffey, what were the data on which you relied in preparing this chart?

[fol. 841] A. They were the data the sources of which are shown in Table 16, which is also Exhibit 16, I believe.

Q. The source data is indicated on Exhibit 16. Dr. Gaffey, will you refer to the relative ranking as of June 30, 1950.

A. Yes, on June 30, 1950, the largest bank had 22.5 per cent of all the assets of insured commercial banks in Philadelphia.

The two largest banks combined had 41.3 per cent of such total assets, and the four largest banks combined had 56.5 per cent of such total assets.

Q. How do these relative rankings change as of June 30, 1960?

A. They had increased somewhat. On June 30, 1960, the largest bank had 25.2 per cent of the total assets of insured commercial banks in Philadelphia, and the two largest banks had 48.4 per cent of such total assets. The four largest banks had 75.5 per cent of such total assets.

Q. And if the two banks were combined, what would be the relative ranking?

A. If the two banks were combined as of June 30, 1960, the largest bank, which, of course, would be the combination of Philadelphia National and Girard, would have had [fol. 842] 39.3 per cent of the total assets of all insured commercial banks in Philadelphia, and the two largest banks, that is, that combination and the next largest one, would have 64.5 per cent of the total assets of all insured commercial banks in Philadelphia, and the four largest banks would have had 85.4 per cent of such total assets.

By Mr. Price:

Q. This Exhibit G-34 is a graphical representation of the data that appears on Exhibit G-16 under the headings "June 30, 1950," "June 30, 1960 (actual)," and "June 30, 1960 (if Philadelphia National and Girard were combined)", is that correct?

A. Yes, that is correct.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 35 a document headed "Chart III, Concentration of Assets of Insured Commercial Banks in

Philadelphia, Delaware, Montgomery, and Bucks Counties, Pennsylvania, as of June 30, 1950, and June 30, 1960, and Effect of Proposed Merger Upon Such Concentration."

(Document entitled "Chart III, Concentration of Assets of Insured Commercial Banks in Philadelphia, Delaware, [fol. 843] Montgomery, and Bucks Counties, Pennsylvania, as of June 30, 1950, and June 30, 1960, and Effect of Such Proposed Merger Upon Such Concentration," was marked Exhibit G-35 for identification.)

Q. Dr. Gaffey, what is the source of the data on which you relied for Government's Exhibit No. 35?

A. This is also constructed from the materials which were shown as sources for Table 16, which is also Exhibit 16.

Q. And this is distinguished from Exhibit 34 to the extent that it is in the four-county area; is that correct?

A. Yes.

Q. What does the exhibit indicate with respect to the four-county area concentration, as of June 30, 1950?

A. On that date the largest bank in the area had 19.3 per cent of the assets of all insured commercial banks in this area. The two largest banks combined had 35.5 per cent of such assets, and the four largest banks had 48.6 per cent of such assets.

Q. And by June 30, 1960, what had happened to this concentration ratio?

A. It had increased somewhat. The largest bank at that time had 22.9 per cent of the total assets of all insured commercial banks in these four counties. The two largest [fol. 844] banks combined had 44 per cent of the assets of such banks, and the four largest banks considered together had 68.6 per cent of such total assets.

Q. And if the defendant banks would have combined, what effect would this have upon the concentration ratio?

A. It would have increased it substantially to the level shown on the last series of bars on the chart. The largest bank, which of course would be the combined Philadelphia National Bank and Girard Trust Corn Exchange Bank, would have had 35.7 per cent of all of the assets of insured commercial banks in this area. The two largest banks

together would have had 58.7 per cent of such assets, and the four largest banks combined would have had 77.6 per cent of such assets.

By Mr. Littleton:

Q. Doctor, do I understand that this chart G-35 was prepared under your direction?

A. Yes.

Q. And G-34 also?

A. Yes.

Q. May I ask you whether you have prepared similar charts for other metropolitan areas in the United States in which limited branch banking was permitted?

A. Well, not in this connection, no.

[fol. 845] Q. What do you mean, not in this connection? Not in connection with this case, of course.

A. Not in connection with this case.

Q. No, I don't mean that. You are a man apparently of some experience, from what you told us in the beginning. Now, in your experience have you ever had charts prepared under your direction of any other metropolitan area in the United States similar to this, where limited branch banking is permitted?

A. Yes.

Q. Which ones were they?

Mr. Reycraft: Well, Dr. Gaffey, if you think that you would suffer any embarrassment by disclosing information that is confidential in the department, I would ask that the Court permit you not to answer.

Mr. Littleton: Well, if Your Honor pleases, here is a man that is put up here as an expert on things of this kind, preparing the charts, and I ask him if he has made similar studies, and he says yes, he has had similar charts prepared, and I would like to know what they are. I would like to see how they work out.

Mr. Reycraft: We are not offering them. As a matter of fact, we have given Mr. Littleton a compilation which was prepared by the Comptroller's office, which shows relative [fol. 846] rankings of banks in many major cities in the United States, and this type of information is readily

available if Mr. Littleton wants to pick his cities and make his comparisons. This is something he can do in his case.

Mr. Littleton: I am asking this witness.

Mr. Reycraft: I don't think Dr. Gaffey should be required to give you information which will disclose matters he is working on within the department.

Mr. Littleton: Well, in the past, has he?

Mr. Reycraft: In the past he has worked on matters in the department.

The Court: Has he done it in other than pending litigation?

Mr. Reycraft: To my knowledge, I believe he has.

Would you care to answer it?

The Witness: I don't believe I have any other than with relation to pending——

Do you mean, by pending litigation, this case or other cases?

Mr. Reycraft: If it is only pending litigation, Dr. Gaffey, I have no objection.

By the Court:

[fol. 847] Q. Not only this case, but any other matter.

A. Yes, I have, in connection with other pending litigation.

By Mr. Reycraft:

Q. That is, cases which have been filed?

A. Yes.

By the Court:

Q. No completed cases? Have you done it in cases which have been finally disposed of?

A. No, Your Honor.

Q. Have you done it in other matters, that didn't result in suits, and which the department, so far as you know, is not planning action?

A. No.

Q. You haven't done it. So all your matters are connected with pending litigation in this particular area of statistics; is that right?

A. Yes.

The Court: All right. I won't require him to answer it.

Mr. Littleton: All right, sir.

Mr. Reycraft: Will you mark for identification as Government's Exhibit 36 a document headed "Statement of [fol. 848] Assets and Liabilities as of June 30, 1960." This was marked informally as Government's Exhibit 42.

(Document headed "Statement of Assets and Liabilities as of June 30, 1960," was marked Exhibit G-36 for identification.)

Q. Dr. Gaffey, what is the source of Government's Exhibit 36?

A. It came from the application which these banks file with the Comptroller.

Q. Without going into detail, will you compare the loans and discounts of the two banks indicated on the exhibit?

A. The exhibit shows total loans and discounts of the charter bank, which is the Philadelphia National Bank of $523,612,000, and loans and discounts net of the merging bank, which is the Girard Trust Corn Exchange Bank, of $399,362,000, or a combined total of net loans and discounts of the two banks which are seeking to merge here of $922,974,000.

Q. And these figures are as of June 30, 1960, Doctor?

A. Yes, they are.

Q. Now will you compare the total assets of the two banks.

[fol. 849] A. This exhibit shows total assets of the Philadelphia National Bank of $1,064,335,000 and total assets of Girard of $740,920,000, or a combined total after two relatively minor adjustments of $1,805,238,000.

Q. Will you compare the demand deposits of the two banks.

A. The demand deposits of the Philadelphia National Bank are shown as $786,974,000, and the demand deposits of Girard are shown as $521,260,000. The combined total after a minor adjustment is $1,308,213,000.

Q. And will you compare the time and saving deposits of the two banks.

A. The Philadelphia National Bank shows time and savings deposits of $137,521,000 and Girard, of $129,530,000, for a combined total of the two banks of $267,051,000.

Q. And will you compare the total deposits.

A. The total deposits of Philadelphia National Bank were $924,495,000, and such deposits of Girard were $650,790,000. After another relatively minor adjustment the combined total deposits are shown as $1,575,264,000.

Q. And what were the separate and combined total capital accounts of the two banks?

A. The total capital accounts of Philadelphia National [fol. 850] were $93,307,000, and those of Girard were $74,059,000. After two adjustments, which nearly cancel out, the combined total shown is $167,370,000.

By Mr. Littleton:

Q. Will you address yourself to the capital and surplus of each of the banks and explain to us your understanding of Note (d).

A. All right. Well, it shows, first, capital of Philadelphia National of $26,478,000, and of Girard, $16,919,000, and an adjustment in the capital, which is Note (c), after taking into account that adjustment, the combined total capital of the two banks would be $48,262,000.

Now, in the surplus it shows $53,522,000 for Philadelphia National, $43,081,000 for Girard, and the adjustment of an additional $5,135,000, to give a combined total of $101,738,000 in surplus.

That additional surplus is to be obtained, as explained in Note (d) by selling 98-7/16 new shares of stock at $43 a share, which is the current market price, and transferring a sum of $5,131,627 to the surplus account to round out the capital and surplus account to $150,000,000—combined capital and surplus account.

[fol. 851] Q. In other words, a transfer from undivided profits to surplus in order to bring the lending limit up to $15,000,000; is that correct?

A. That's correct.

Mr. Littleton: No other questions.

By Mr. Price:

Q. What is meant by Note (a)?

A. Well, that deduction of $21,000 is bank deposits which one bank carries—which either Philadelphia National car-

ries in Girard or vice versa—after netting out certain reciprocal balances.

The effect of Note (a) is to eliminate balances which the two banks which are seeking to merge have, each in the other bank.

Q. So as to avoid duplication?

A. That is correct; to avoid duplication.

Mr. Price: That's all, thank you.

Mr. Reycraft: Will you mark for identification as Government's Exhibit 37 the document headed "Analysis of Loan and Deposit Accounts (See Statement of Assets and Liabilities)."

(Two-page document headed "Analysis of Loan and Deposit Accounts (See Statement of Assets and Liabilities)," was marked Exhibit G-37 for identification.)

[fol. 852] By Mr. Reycraft:

Q. Now, Dr. Gaffey, will you identify the two banks described in the exhibit as charter bank and merging bank?

A. Those are the terms used in the application. The charter bank is the Philadelphia National Bank, and the merging bank is the Girard Trust Corn Exchange Bank.

Q. What is the source of this exhibit, Dr. Gaffey?

A. It came from the application of these two banks to the Comptroller of the Currency to merge.

Q. Dr. Gaffey, what does Government's Exhibit No. 37 indicate with respect to the commercial and industrial loans of the two banks?

A. It shows the commercial and industrial loans of each of these banks. It shows $306,587,000 commercial and industrial loans of Philadelphia National Bank and $200,001,000 of commercial and industrial loans of Girard.

Q. What would be the total loans and discounts of the two banks net?

A. It would be $506,588,000.

Mr. Reycraft: Would you read his answer? I didn't hear it.

The reporter read the testimony as follows:

"A. It would be $506,588,000.")

The Witness: I am sorry, I read the commercial and [fol. 853] industrial loans. You wanted a total——

By Mr. Reycraft:

Q. You have given the commercial and industrial loans, Dr. Gaffey.

I asked you if you will compare the total loans and discounts net.

A. Yes. The totals loans and discounts net of Philadelphia National Bank were $523,612,000; and the total net loans and discounts of Girard were $399,362,000.

Q. Will you compare the demand deposits of the two banks for individuals, partnerships, and corporations?

A. The total demand deposits for individuals, partnerships, and corporations of Philadelphia National Bank were $510,501,000.

The total individuals' and the partnerships' and corporations' demand deposits of Girard were $429,440,000.

Q. And the total demand deposits would be what for each bank?

A. Philadelphia National, $786,974,000; Girard, $521,260,000.

Q. And what does the exhibit indicate with respect to the time deposits of individuals, partnerships, and incorporations?

A. Philadelphia National's time deposits of individuals, partnerships, and corporations were $113,409,000. Girard's were $122,087,000.

[fol. 854] Q. And this data is also as of June 30, 1960, is it not?

A. Yes.

Q. Can we compare the total time deposits, Dr. Gaffey?

A. Philadelphia National Bank, $137,521,000; Girard, $129,530,000.

Q. And the total deposits?

A. Philadelphia National's total deposits were $924,495,000 and Girard's total deposits were $650,790,000.

Mr. Reycraft: Any questions?

Mr. Littleton: I have no questions.

Mr. Reycraft: Will you mark as Government's Exhibit 38 a document entitled "Basis for Proposed Merger of The Philadelphia National Bank and Girard Trust Corn Exchange Bank."

(Four-page document entitled "Basis for Proposed Merger of The Philadelphia National Bank and Girard Trust Corn Exchange Bank," was marked Exhibit G-38 for identification.)

Mr. Reycraft: I might point out that this exhibit is based on pages 141, 142, 144, and goes back to 143 of the application. In other words, it is not in the precise position in which it appears in the application.

Pages 3 and 4 of the exhibit are reversed as they appear in the application, and I am not sure it makes a difference [fol. 855] which way they appear.

Mr. Price: The first two pages are 141 and 142, respectively?

Mr. Reycraft: Yes. That's right.

By Mr. Reycraft:

Q. Dr. Gaffey, with respect to Government's Exhibit No. 38, will you refer to the net adjustments which will occur as part of the proposed merger?

A. (No response.)

Q. What are the net adjustments, Dr. Gaffey?

A. Well, the total net adjustments are $19,731,542 for Philadelphia National Bank and $17,014,686 for Girard; or a combined total of $36,746,228.

Q. Dr. Gaffey, moving down the page to the dilution per share, what is the dilution per share upon the merger?

A. 40 cents per share in Philadelphia National Bank—minus 40 cents a share in Philadelphia National Bank and plus 62 cents a share for Girard Trust Corn Exchange Bank.

Q. Moving down to the capital-to-deposits ratio, what is indicated with respect to the capital-to-deposits ratio of the Philadelphia National Bank prior to merger?

A. 10.09 per cent.

Q. And the capital-to-risk assets?

A. 14.83 per cent.

[fol. 856] Mr. Reycraft: Now may I ask counsel whether, as it appears in the application, the ratio on the right-hand side of the page is applicable to Girard or to the resulting bank after the merger?

Mr. Price: Yes.

Mr. Reycraft: So that there is no ratio for Girard prior to the merger?

Mr. Price: That's right.

Mr. Reycraft: And these ratios as I read them are 10.62 per cent for capital-to-deposit ratio and 15.49 per cent for capital-to-risk assets.

Mr. Littleton: I don't have any questions. I don't see the relevancy of it to the case.

Mr. Reycraft: I would be glad to explain it.

I think it shows that the capital-to-deposit ratios of the Philadelphia National Bank are quite sound and that the capital-to-risk-assets ratio is also quite high; and the combined bank's ratios would also be quite high to show the good financial condition of the bank.

Will you mark as Government Exhibit No. 39 a document headed "Interest Rates on Loans" marked informally as G-44.

(Three-page document entitled "Interest Rates on Loans," was marked Exhibit G-39 for identification.)

[fol. 857] By Mr. Reycraft:

Q. Dr. Gaffey, what does the Government's Exhibit 39 indicate with respect to the variation in interest rates of the charter bank on time credit?

A. It shows that on time credit the charter bank shows rates varying from 8.31 per cent to 9.95 per cent on consumer paper, and from 7.85 per cent to 16.62 per cent on dealer paper in the time-credit category.

Q. May I suggest, Dr. Gaffey, that the highest rate is 11.58 per cent and that the average is 9.95 per cent?

A. The average is 9.95 per cent.

Q. Yes, sir.

And with respect to commercial loans, what are the interest rates indicated?

A. The highest rate is 9 per cent and the lowest rate is 2.9 per cent; and the over-all rate of return for the month of September on all loans and discounts was 5.45 per cent.

Q. Turning to the next page, Dr. Gaffey, what does the exhibit indicate with respect to the average rate of all commercial loans as of August 31, 1960, for the merging bank?

A. For the merging bank, which was Girard, the average rate on all commercial loans was 5.18 per cent.

Q. And on collaterals?

[fol. 858] A. On collaterals, it was 5.26 per cent.

Q. And in the Consumer Credit Department, what was the average rate as of August 31, 1960?

A. For Girard the average rate, August 31, 1960, on consumer credit was 9.06 per cent.

Q. Now, this exhibit, also, Dr. Gaffey, was based upon the application to the Comptroller, was it not?

A. Yes, it was.

Q. And at pages 113 to 115?

A. Yes.

Mr. Reycraft: Would you mark for identification as Government's Exhibit No. 40——

Mr. Price: May I ask some questions on Exhibit 39?

By Mr. Price:

Q. Were those averages you spoke about weighted averages of absolute averages or what kind of averages?

A. (No response.)

Q. Or don't you know?

A. It doesn't say, but it is usual to use weighted averages, and I would assume that they are weighted averages.

Q. But that is only an assumption and you don't know what the fact is?

A. I don't know for sure. I think that it is very probably [fol. 859] weighted averages because that's the kind of figures that are usually used.

Q. I am just asking you whether you knew, not what it might have been.

A. Yes.

Q. Do you know or don't you?

A. I don't know.

Mr. Price: Thank you.

By Mr. Littleton:

Q. Doctor, this Exhibit G-39 is really a photostat copy of pages 113, 114, and 115 of the application to the Comptroller, is it not?

Mr. Reycraft: As a matter of fact, it is a Stenofax.

Mr. Littleton: All right. I said "photostat."

By Mr. Littleton:

Q. It is a copy?

A. Yes.

Q. And you were testifying solely from it; is that correct?

A. Yes.

Q. And in any instance where your oral testimony, if you can call it such, differs from what G-39 says, G-39 is to prevail; is that correct?

[fols. 860-864] A. (No response.)

Q. You did make a couple of mistakes at the beginning and your counsel called your attention to it, but I am not sure that we are all clear, and I simply want to have from you that any place where your oral testimony differs from what appears on G-39, G-39 is to prevail; is that correct?

A. Yes.

Mr. Littleton: All right.

The Court: It is exactly one minute of 4, Mr. Reycraft. Let's break until 10 o'clock tomorrow morning.

(Adjourned at 3:59 o'clock P.M. until 10:00 o'clock A.M. on Wednesday, June 7, 1961.)

[fols. 865-866] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

THIRD DAY

Philadelphia, Pa., June 7, 1961

Before Hon. Thomas J. Clary, J.

[fol. 867] The Court: I understood there was a motion to be presented. Is that correct?

Mr. Littleton: If Your Honor please, I was coming down this morning with Mr. Reycraft to find out when Your Honor would hear us on a motion to quash a trial subpoena

which has been served on the Philadelphia Bank. We can do it now or we can do it at the end of the day.

The Court: Suppose we do it at the end of the day. Let us not interfere with the trial.

JOHN DEAN GAFFEY, resumed.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 40 a document of two pages with the heading "Interest Rates on Time Accounts and Savings Accounts."

(Document headed "Interest Rates on Time Accounts and Savings Accounts" was marked G-40 for identification.)

Q. Dr. Gaffey, will you state the source of Exhibit No. 40.

A. This came from the application which Philadelphia National Bank and Girard Trust Corn Exchange Bank filed [fol. 868] with the Comptroller for approval to merge.

Mr. Littleton: No questions.

Mr. Price: No questions.

Mr. Reycraft: Will you mark for identification as Exhibit No. 41 a 1-page document with the heading "Personal Trusts."

(Document headed "Personal Trusts" was marked Exhibit G-41 for identification.)

Q. Dr. Gaffey, what is the source of the information contained in Government's Exhibit No. 41?

A. This came from the same source, the application to the Comptroller for approval to merge.

Q. What does the exhibit indicate with respect to the number of accounts of the two banks in the executor and administrator category?

A. The Philadelphia National Bank has 129 accounts and the Girard Trust Corn Exchange Bank had 236 accounts.

Q. And with respect to trusts under deeds?

A. Philadelphia National, 511 accounts, Girard, 2337 accounts.

Q. And with respect to trusts under Wills?

A. Philadelphia National, 474 accounts, Girard, 2721.

Q. And with respect to pension and profit sharing trusts?
[fol. 869] A. Philadelphia National, 95 accounts, Girard, 378 accounts.

Q. And skipping down the page to custodian accounts, what does the exhibit indicate?

A. Philadelphia National had 147 and Girard 621 accounts.

Q. What does the exhibit indicate with respect to the total number of personal trust accounts both by number and by dollar value?

A. Philadelphia National had 2570 accounts and Girard, 7555 accounts, or a total of 10,325 accounts.

As to market value, Philadelphia National had accounts of a value of $361,300,000, and Girard had accounts having a market value of $2,248,206,000. The combined market value of the accounts of the two banks seeking to merge exceeds $2,600,000,000.

Mr. Littleton: I have no questions.

Mr. Price: No questions.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 42 a 1-page document with the heading "Corporate Trust."

(Document headed "Corporate Trust" was marked Exhibit G-42 for identification.)

By Mr. Reycraft:

Q. Dr. Gaffey, what is the source of Government's Ex-
[fol. 870] hibit No. 42?

A. This also came from the application for approval to merge Philadelphia National Bank and Girard Trust Corn Exchange Bank.

Q. What does the exhibit indicate with respect to trustee accounts?

A. Philadelphia National had seven trustee mortgage accounts and Girard had 37 such accounts.

Q. What are the totals indicated?

A. That would be 44 accounts all together. Girard had three collateral trust accounts.

Philadelphia National had one equipment trust account and Girard had 32 accounts of that type.

Philadelphia National had six debentures accounts and Girard had 15 such accounts.

Philadelphia National had 39 authorities trustee accounts and Girard had 46 such accounts.

Philadelphia National had 1 liquidating trust account.

In fiscal agency accounts, Philadelphia National had 4 and Girard had 8 such accounts.

The totals of all accounts in those classes thus far, that is, trustee accounts and fiscal agency accounts were 58 [fol. 871] Philadelphia National Bank accounts and 141 Girard Trust Corn Exchange accounts or a combined total of 199 such accounts.

Q. What does the exhibit indicate with respect to bond and coupon paying agencies of the respective banks?

A. Philadelphia National bank had 65 accounts in that classification and Girard had 158 such accounts, or a combined total of 223 accounts.

Q. And with respect to stock transfer agencies?

A. Philadelphia National Bank had 26 stock transfer agency accounts and Girard had 57 such accounts, or a combined total of 83.

Q. And with respect to registrar activities?

A. Philadelphia National Bank had 18 registrar accounts and Girard had 52 registrar accounts, for a combined total of the two banks of 71 such accounts.

Mr. Littleton: I have no questions.

Mr. Price: No questions.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 43 a 1-page document headed "Schedule 6, Aggregate Personal Trust Business of Philadelphia Commercial Banks as of December 31, 1959."

(Document headed "Schedule 6, Aggregate Personal Trust Business of Philadelphia Commercial Banks as of [fol. 872] December 31, 1959" was marked Exhibit G-43 for identification.)

By Mr. Reycraft:

Q. Dr. Gaffey, what is the source of Government's Exhibit No. 43?

A. This came from the application of Philadelphia National Bank and Girard for approval to merge.

Q. What does the exhibit indicate with respect to the personal trusts of First Pennsylvania Company?

A. First Pennsylvania had personal trusts of a value as of December 31, 1959, of $3,260,000,000.

Q. And in percentage?

A. Or 35 per cent of the total of all banks in Philadelphia.

Q. What does the exhibit indicate with respect to the combined percentages of Philadelphia National Bank and Girard?

A. The combined percentage of Philadelphia National Bank and Girard was 28 per cent of the total.

Mr. Littleton: No questions.

Mr. Price: No questions.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 44 a document with the heading [fol. 873] "Schedule 7, Aggregate Consumer Credit Business of Philadelphia Commercial Banks as of December 31, 1959."

(Document headed "Schedule 7, Aggregate Consumer Credit Business of Philadelphia Commercial Banks as of December 31, 1959," was marked Exhibit G-44 for identification.)

By Mr. Reycraft:

Q. Dr. Gaffey, what is the source of Government's Exhibit No. 44?

A. This came from the application of Philadelphia National Bank and Girard for approval to merge.

Q. And the estimates would be those of the banks?

A. Yes.

Q. Now, with respect to First Pennsylvania Banking and Trust Company, what does the exhibit indicate?

A. The First Pennsylvania Banking and Trust Company had $180,000,000 of consumer credit outstanding as of December 31, 1959.

Q. And in percentage of the total?

A. This was 34 per cent of the total of all commercial banks in Philadelphia.

Q. And what does the exhibit indicate with respect to the combined totals of Philadelphia National and Girard?

A. Philadelphia National and Girard combined had [fol. 874] $134,000,000 of consumer credit outstanding as of December 31, 1959, and that accounted for 25 per cent of the total of such volume of all commercial banks in Philadelphia.

Mr. Littleton: No questions.

Mr. Price: No questions.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 45 a four-page document with the heading "Service Charges, Charter Bank, Merging Bank, Proposed for Resulting Bank."

(Document headed "Service Charges, Charter Bank, Merging Bank, Proposed for Resulting Bank" was marked Exhibit G-45 for identification.)

Q. Dr. Gaffey, what is the source of Government's Exhibit No. 45?

A. This exhibit also came from the application of Philadelphia National Bank and Girard for approval to merge.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 45-A a document entitled "Comparison of Proposed Service Charges of 'Resulting' Bank with Service Charges of Philadelphia National Bank and Girard Trust Corn Exchange Bank Immediately Prior to Their Application to Merge."

[fol. 875] (Document entitled "Comparison of Proposed Service Charges of 'Resulting' Bank with Service Charges of Philadelphia National Bank and Girard Trust Corn Exchange Bank Immediately Prior to Their Application to Merge," was marked Exhibit G-45-A for identification.)

Q. Dr. Gaffey, will you explain what Exhibit 45-A shows.

A. This compares the proposed service charges for the combined bank which they stated they planned to put into effect if they had merged, comparing them with the charges in these categories of Philadelphia National Bank and Girard Trust Corn Exchange Bank immediately prior to their application to merge.

Q. And what does the exhibit indicate with respect to the proposed change in the service charges on special checking accounts?

A. In five categories of service charges the resulting bank would have taken the higher charge of Philadelphia National Bank or Girard, that is, whichever was higher. There were no instances in which they would have taken the lower of the two. There was one instance in which they would have taken a charge which was between the charge which was formerly made by Philadelphia National Bank and Girard. In both of the—well, in this one instance the [fol. 876] charge was somewhat closer to the higher than the lower previous charge, and there were three instances in which they proposed to leave the charges the same as they were before.

Q. And what does the exhibit indicate with respect to any proposed changes in the charges for company and personal accounts?

A. There were only two instances in that category, and in both instances they proposed to take the higher of the Philadelphia National Bank's charge or Girard's charge.

Q. What does your examination indicate with respect to analysis of personal accounts over $500?

A. In three instances they proposed to take whichever charge was higher, that of Philadelphia National Bank or Girard. In one instance they proposed to take the lower charge. In two instances the charges were proposed to remain unchanged.

Q. What did your examination indicate with respect to analysis of company accounts over $500?

A. In three instances they proposed to take Philadelphia National's or Girard's charge, whichever was higher. In three instances they proposed to take Philadelphia National's charge or Girard's, whichever was lower. In two instances they proposed to leave the charges the same as [fol. 877] before.

Q. What did your study indicate with respect to other analysis charges?

A. There were nine instances in this category in which they proposed to take the charge of Philadelphia National or Girard, whichever was higher. There were no instances in which they proposed to take the lower of the two charges. There was one instance in which they proposed to take a charge between that formerly charged by Philadelphia National and that charged by Girard, although somewhat

closer to the higher than to the lower previous charge. There were two cases in which the charges would have remained unchanged.

Q. And what did your study indicate with respect to other miscellaneous charges?

A. There were four instances in which they proposed to take either Philadelphia National's charge or Girard's, whichever was higher. There were two classes of charges of these which were indeterminate. That is, I was unable to determine whether it was higher or lower or the same, because the basis of charge was so different. The basis of the charges, the former charges of the two banks, Philadelphia National and Girard, were on such a different basis that I was unable to determine whether the resulting charge [fol. 878] would be higher or lower.

Q. What did your study indicate with respect to charges of the correspondent banks?

A. There were six instances in which they proposed to take the higher of Philadelphia National's or Girard's charges. There were none in any of the other categories.

Q. And the total of all of these charges, what do they indicate, Dr. Gaffey, with respect to the increase or decrease in service charges?

A. In 32 cases the proposed charges of the resulting bank would have been Philadelphia National Bank's charge or Girard's charge, whichever was higher. In four instances the resulting bank's charge would have been Philadelphia National Bank's charge or Girard's, whichever was lower. In two instances the proposed charges of the resulting bank would have been between the charge formerly made by Philadelphia National Bank and Girard, in both instances somewhat closer to the higher than to the lower previous charge, and there were nine instances in which they proposed to leave the charges the same as before.

By Mr. Littleton:

Q. Doctor, this G-45-A which you submitted is purely a numerical count, is it not, of the higher and lower?

[fol. 879] A. Yes.

Q. You haven't made any study, have you, of the relative comparative dollar values of these changes?

A. No.

Q. Have you made any analysis of the earning credits of this type of account?

A. No.

Q. Will you look on Page 2 of Sheet 45. Do you have that?

A. Yes.

Q. Will you look at "Personal over $500," where you say "Analysis," and look down to "Earnings Credit.". Do you see the line "First 100,000, $1.50 per thousand, over $100,000, $1.75 per thousand"?

A. Yes.

Q. Have you included your earnings credit among your highers that you have given in 45-A?

A. Yes, I did. One of them shows the same as before and one shows the higher.

Q. So you have included earnings credits in these highers and lowers also, haven't you?

A. Yes, I did.

Q. What does that produce in your numbers? Aren't you again mixing apples and pears, Doctor? In other [fol. 880] words, is G-45-A just a summation by you or a statement of the number of items appearing on G-45 which go up and the number which go down and you don't care whether they are charges or credits; isn't that correct?

A. There are three credits on that page.

Mr. Littleton: Will you answer my question?

The Witness: Those three credits were included——

Mr. Littleton: Would you answer my question, please? Mr. Stenographer, will you read him the question?

(The reporter read as follows:)

> "In other words, isn't G-45-A just a summation by you or a statement of the number of items appearing on G-45 which go up and the number which go down and you don't care whether they are charges or credits; isn't that correct?"

A. Well, that is a difficult question to answer by yes or no. May I explain?

Q. Sure.

A. Your questioning has raised a question of whether I

should have included those three items of earnings credit. [fol. 881] Q. As I understand it, there is a doubt in your mind as to the accuracy of this G-45-A; is that correct, Doctor?

A. Yes, with respect to the inclusion of those three items of earnings credit.

By Mr. Price:

Q. Doctor, if you included credits in the number of changes, why did you entitle this document 45-A, "Comparison of Proposed Service Charges"?

A. Well, the basic material from which I compiled it was entitled "Service Charges." I have observed by a little further study of this that of the three items of earnings credit, two of them remained the same and therefore had no or very little significance, so I have included only one item that probably should not have been included.

By the Court:

Q. What do you mean, two of them remained the same?

A. The earnings credits for personal over $500 analysis on Page 2, about the middle of Page 2, is the same for the charter bank, the merging bank, and the proposed resulting bank. Therefore, it was included within the unchanged column.

Q. In other words, they are raising the credit 25 cents a thousand over what the Girard allowed, so that is an [fol. 882] allowance rather than a charge; isn't it?

A. Yes, there is one that they are raising the allowance. There are two on that page that remain the same. To revise this table to reflect it properly I should eliminate two items that remain the same and one item that is increased. The one item that is increased is an earnings credit for personal analysis over $500 for over 100M.

By Mr. Price:

Q. If you think there are only two credits on that Page 2, will you look first at the bottom of the section entitled "Personal Over $500" where you find first "$100,000" and "Over $100,000."

A. Yes.

Q. There are two there, aren't there?

A. Yes.

Q. Will you look at the next group, "Company Over $500 Analysis." There are two there?

A. There are two there also, so there are four.

Q. Now you are up to four?

A. Yes, two of which——

Q. Go back and take another look at it and tell us which the changes really are.

A. Going over the earnings credit on Page 2 now for [fol. 883] personal accounts over $500 analysis, on the first 100M that item is the same for the charter bank, the merging bank, and the proposed resulting bank.

The next item, over 100M, that item is higher for the charter bank than the merging bank, and the higher of the two items was taken for the resulting bank.

Going to the "Company Over $500 Analysis," earnings credit for the first 100M, that item is identical for the charter bank, the merging bank, and the resulting bank.

The next item "Earnings Credit Over 100M," that item was higher for the charter bank than for the merging bank, and the higher of the two credits is chosen for the resulting bank, so my table should be revised as to two higher items and as to two unchanged items.

[fol. 884] Q. Do you really think you put all those four items in this statement of proposed service charges?

A. I believe I did.

Q. But you are not quite sure?

A. My notes—what incomplete notes on my sheets that I used as work sheets indicate that I did, and I would have to check to be absolutely certain.

Q. Whether you did or didn't, all that Exhibit 45-A purports to show is the number of items, which either would change up or down or remain unchanged; and the exhibit does not purport to show the effect in dollars of these proposed changes, does it?

A. That's correct.

Q. And by merely listing the number of charges and indicating what they are on Exhibit 45, you show in figures the amounts that are charged or proposed to be charged for various services done; that's correct, isn't it?

A. Yes.

Q. However, the credits are dependent entirely on the amount of the individual deposits as they are maintained; isn't that so?

A. Yes.

Q. So that merely listing as a fact that there is a change, an increase in credit, and that there is a charge made gives [fol. 885] you no possible basis of comparison, does it?

A. (No response.)

Q. The charge is shown in pennies or cents, the credit is shown with relation only to the amount of the deposit, which is a variable factor; isn't that so?

A. Yes.

Q. And you wouldn't be able to tell the amount of any credit which would be available as an offset against the charge without knowing the deposits, would you?

A. No.

Q. Do you understand the way that earnings credit operates?

A. I believe generally, yes.

Q. Tell me what you think it is.

A. It's a credit which the bank gives to the depositor, based on the average balance which the depositor maintains in his account in the bank, which is used to offset in part or possibly wholly the service charges which the bank charges for its various services which it gives to the depositor.

Q. So that if the deposit maintained by the depositor is sufficiently large, all service charges may be absorbed by it and no charge actually made against his account; isn't that so?

A. That is possible, yes.

Q. Sure; and your exhibit does not purport to show whether that happens or, if so, how it happens, does it?

[fol. 886] A. No.

Q. Have you any figures as to the charges and credits made by other banks in Philadelphia?

A. I don't have any readily at hand.

Q. Did you prepare any——

A. I think we may have seen some.

Q. Did you prepare any tables showing a comparison between either the charter bank, the merging bank, or the combined bank with any of the other banks in Philadelphia?

A. No.

Q. Have you any information as to how these charges were arrived at in the first place?

A. No.

Q. Have you any information as to how the proposed charges were arrived at?

A. I don't recall whether there was any further information on that point in the application or not. There may have been.

Q. Have you seen any information as to the cost of rendering the several services which are listed in your Exhibit 45?

A. No.

Q. On page 2 of Exhibit 45, there is an item under the main section entitled "Personal Over $500," which is called "Float."

[fol. 887] Opposite the word "Float" there is the word "none" under the charter column, two days under the merging-bank column, and none for the proposed resulting bank. What does that mean?

A. Well, that means that the resulting bank proposes to follow the practice of Philadelphia National Bank with regard to float, to make no allowance for float there.

Q. I couldn't hear what you said.

A. It means that the resulting bank proposes to follow the practice of the Philadelphia National Bank with regard to float and not to follow the practice of the Girard Trust Corn Exchange Bank with regard to that item.

Q. Was the float entry included in G-45-A?

A. No.

Q. Why not?

A. Because I wasn't sure of the net effect of the proposed change.

Q. So that you can't tell and don't yet know, although you prepared the exhibit, whether or not the adoption of the "none" under the float designation instead of the two days is better or worse to the depositor?

A. I believe that the practice proposed for the resulting bank is less favorable to the depositor, but I was not sure on that point, so I left it out.

[fol. 888] Q. So you think the result is less favorable to the depositor?

A. I believe so.

Mr. Price: That's all.

By Mr. Littleton:

Q. Doctor, while you are on that page to which Mr. Price has directed your attention, under the category of "Personal Over $500 Analysis," will you look at the item checks drawn, 6 cents charter bank, 5 cents merging bank, proposed resulting bank 5 cents.

I assume that change appears under your "Lower" in G-45-A; is that correct?

A. Yes, it does.

Q. Drawing checks is something that is done by everybody who has a deposit; isn't that so, as for as you know?

A. Yes.

Q. From your experience it is the very common thing, isn't it?

A. Yes.

Q. You haven't weighted your figures in G-45-A at all, have you?

A. No. I had no basis for doing so.

Q. Will you look on page 3 of G-45 under other analysis charges, and I notice under G-45-A you have under other [fol. 889] analysis charges nine instances of the higher charge.

Non-sufficient funds is one of the higher charges, isn't it?

A. Yes.

Q. And so is uncollected funds, isn't it?

A. Yes.

Q. And so is post-dated checks, isn't it?

A. Yes.

Q. And so are overdrafts?

A. Yes.

Q. And down a little further, roll coin takes a higher charge, doesn't it?

A. Yes.

Q. And wire transfers take a higher charge?

A. Yes.

Q. Are they very common things?

A. (No response.)

Q. Compared with drawing checks, for instance?

A. Well, no, they are not as common.

Q. Could you give them the same weight in G-45-A as the one "Lower" item in the drawing of checks?

A. I had no basis for weighting them, so I didn't weight them.

Q. I am just asking you the fact. You gave them exactly [fol. 890] the same weight?

A. Yes.

Q. Have you made any analysis to see what the net effect of this might be on what I might call the "small depositor"?

A. No.

Q. Have you made any check or analysis to show what the effect of this might be on what we might call the "middle-sized depositor"?

A. No.

Q. And you have made no analysis to ascertain when either of these banks, either Philadelphia National or Girard Corn Exchange, last made a change in any of their service charges, have you?

A. No.

Mr. Littleton: All right. Thank you.

By Mr. Reycraft:

Q. Dr. Gaffey, if the two items on earning credits which you included in the first column of 45-A were omitted, that would give you thirty, would it not?

A. Yes, it would.

Q. On the high side; and earnings credits are like interest rate on demand deposits, are they not?

A. Yes. They are generally similar to that.

[fol. 891] By Mr. Price:

Q. They are like it except that you can't collect it?

A. (No response.)

Q. Can you?

A. (No response.)

Mr. Reycraft: Will you mark as Government's Exhibit No. 46 a one-page document headed "Mutual Accounts, Checking, Time, and Savings."

(Documents entitled "Mutual Accounts, Checking, Time, and Savings," was marked Exhibit G-46 for identification.)

By Mr. Reycraft:

Q. Dr. Gaffey, will you state the source from which the information on this exhibit was obtained?

A. This exhibit came from the application of Philadelphia National Bank and Girard Trust Corn Exchange Bank for approval to merge.

Q. Now, it is a fact, is it not, that certain written material which appeared in the application was omitted in preparing these statistics?

A. Yes.

Q. What does the exhibit indicate with respect to the number of mutual checking accounts held in the two banks?

A. There were 392 mutual checking accounts in Philadelphia National Bank and Girard Trust Corn Exchange [fol. 892] Bank.

Q. And these accounts are limited to those in excess of $10,000 balance, are they not?

A. Yes. They are.

Q. And what are the total balances carried in these accounts in the Philadelphia National Bank?

A. $163,820,700.

Q. And in Girard?

A. $101,782,——.

Let me start again. I am sorry, Cross that figure. $101,782,700.

Q. And how many mutual time accounts are indicated?

A. Eight.

Q. What are the balances carried in the respective banks in that category?

A. $1,149,400 in the Philadelphia National Bank, and $3,094,000 in Girard Trust Corn Exchange Bank.

Q. What does the exhibit indicate with respect to the number of mutual savings accounts?

A. There were thirty-six mutual savings accounts in the two banks.

Q. And the balances carried in the respective banks?

A. $736,400 in Philadelphia National Bank; $589,500 in [fol. 893] Girard Trust Corn Exchange Bank.

Q. And what does the exhibit indicate with respect to the number of mutual loan accounts?

A. There were sixty-seven mutual loan accounts.

Q. And the dollar balances?

A. The loans outstanding at the Philadelphia National Bank were $48,949,000, and the loans outstanding at Girard were $43,599,000.

By Mr. Littleton:

Q. Doctor, addressing yourself first to what is called the number of mutual checking accounts, did you make any analysis or did you have any information as to the number of such accounts and the dollar amount which are controlled from within the service area of these two banks, but are sufficiently large and diversified to require or need banking services from outside the service area if the needs can't be met within it?

A. Would you read that question again? I am not sure that I understood it.

(The reporter read the pending question.)

The Witness: No.

By Mr. Littleton:

Q. You did have such information before you, though, didn't you?

[fol. 894] A. I don't believe I did.

Q. Where did you get this information, the information you have down there? From the application?

A. The information came from the application, yes.

Q. Did you read the entire page when you looked at the application?

A. Yes.

Mr. Littleton: Would you show him the page? Page 99 of the application?

By Mr. Littleton:

Q. Now will you answer my question—did you have such information before you?

A. The information was available, yes.

Q. It was before you, wasn't it?

A. Yes.

Q. Well, how many such accounts were there?

Mr. Reycraft: Now I object.

He doesn't know how many there were. He knows what the application says, Your Honor.

It is hearsay, and that is the reason we didn't put it in, and I think this is another instance where, if there is going to be testimony concerning the number of accounts controlled from outside the area, it ought to be put in by a witness who knows the facts. Dr. Gaffey does not know [fol. 895] how many are controlled outside the area.

By Mr. Littleton:

Q. May I ask, Dr. Gaffey, do I understand that you know of your own knowledge the information you have taken from page 99 of the application and put in G-46, to wit, the number of mutual checking accounts, the balances carried in the Philadelphia National Bank, the balances carried in the Girard? You know that of your own knowledge, do I understand; or do you know it only because it is on page 99 of the application?

A. I know it on the basis of what was stated as a fact in the application.

Q. Do you know it any better than you know what immediately succeeds it as to the material about which I questioned you a few minutes ago?

A. Well, there is a difference in the type of information. The information on this sheet is a simple statement of facts, number of accounts, and dollar amounts.

This other statement is somebody's judgment as to whether they are large enough to require or desire certain types of banking services.

Q. Do you know anything about any of this except what you read from page 99 of the application of these two banks?

[fol. 896] A. Well, I believe I answered that question before, that is, I took the figures on this exhibit from the facts as stated in the application.

Q. Will you answer me, whether you answered before or not? Maybe I have forgotten.

Will you answer me again?

Mr. Littleton: Read him the question.

(The reporter read the question as follows:

"Q. Do you know anything about any of this except what you read from page 99 of the application of these two banks?")

By Mr. Littleton:

Q. Now you can answer that yes or no, I think, Doctor.
A. No.
Q. What else do you know from page 99 of the application besides what you told us so far, since the source is the same and the quality of your information is the same?

Mr. Reycraft: If you are asking him if he knows what these claims are, as to who controls what, I submit that he doesn't know and he shouldn't be required to answer.

The Court: Pass that application over to me.

Do you want him to read that?

Mr. Littleton: That is what I would like to have him do.

[fol. 897] The Court: All right. You may ask the question and I will give the Government a chance to object and then I will rule.

By Mr. Littleton:

Q. Doctor, you have given us the information as to the number of mutual checking accountings on G-46, with the amount of balances which you got from page 99 of the banks' application to the Comptroller.

Will you now read to us what follows on page 99, the figures which you have in the first category on G-46?

Mr. Reycraft: I object, Your Honor.

The basis for my objection is that in this statement is contained a number of conclusionary statements. One is in the third line, the statement that some of these accounts are sufficiently large and diversified to require bank service from outside the service area. Now, "service area" is a conclusion.

It contains a conclusion with respect to the accounts which are controlled from outside the area. It contains a conclusion with respect to the choice the banks had and with respect to what its major banking connection is.

I submit the witness has no basis to know whether these [fol. 898] statements are accurate or not, and that if they want to put evidence of this type in they should do so through the presidents of the two banks who signed the application and who are the authorities for these conclusions.

Now, we have certainly relied on statistics which are contained in the application, which we assume are valid or the banks would not have submitted them.

Now, statistics are one thing, but conclusions are another when you get into such questions as sufficiently large and outside the service area, wide choice, and control. These are all matters which I submit we are entitled to have testimony on from the people who are putting forth these contentions; and we are not.

The Court: The objection is overruled.

You may answer the question.

The Witness: What was the question again?

The Court: Read it.

Let him read what is there. That is what he is asked to do.

Go ahead.

The Witness: Of the foregoing, thirty-five accounts, with balances of $57,631,000 in the Philadelphia National Bank and $36,309,000 in Girard Trust Corn Exchange Bank, are [fol. 899] controlled from within the service area, but are sufficiently large and diversified to require or desire banking service from outside the service area of the resulting bank, if their needs are not satisfactorily met within.

Additionally, eighty-four of the accounts, with balances of $44,149,000 in the Philadelphia National Bank and $24,173,000 in Girard Trust Corn Exchange Bank, are controlled from outside the service areas of the participating and resulting banks, and consequently have a wide choice of major banking connections.

Mr. Littleton: Thank you, Doctor.

By Mr. Littleton:

Q. Now will you look at the last category you have, loan accounts, the number of mutual loan accounts, sixty-seven, followed by the figures for each bank.

That you got from page 100 of the application of the two banks, did you not?

A. Yes.

Q. Will you read us from page 100 the additional information that you obtained from page 100 of the application?

Mr. Reycraft: May I note the same objection, Your Honor?

The Court: The same ruling.

The Witness: Of the foregoing, six of the accounts, [fol. 900] with loans of $9,714,000 at the Philadelphia National Bank, and $7,531,000 at Girard Trust Corn Exchange Bank, are controlled from within the service area but are sufficiently large and diversified to require or desire banking service from outside the service area of the resulting bank, if their needs are not satisfactorily met within. Additionally, sixteen of the accounts, with loans of $14,693,000 at the Philadelphia National Bank, and $17,867,000 at Girard Trust Corn Exchange Bank, are controlled from outside the service areas of the participating and resulting banks, and consequently have a wide choice of major banking connections.

Mr. Littleton: Thank you.

I have no other questions.

Mr. Price: No questions.

By Mr. Reycraft:

Q. Dr. Gaffey, returning to page 99, the statement you read, you don't know whether any of these accounts are large or diversified, do you?

A. No.

Q. You don't know whether they desire banking services from outside the service area, do you?

A. No.

Q. You don't know whether they are controlled from out-outside the service area?

[fol. 901] A. No.

Q. And you don't know whether they have a wide choice of major banking connections, do you?

A. No.

By the Court:

Q. And you don't know whether there are 392 accounts, either, do you?

A. I took the figure from the application.

The Court: I just asked the question.

Read the question back to him.

(The pending question was repeated by the reporter as follows:

"Q. And you don't know whether there are 392 accounts, either, do you?")

The Witness: No.

By Mr. Reycraft:

Q. Do you know that the presidents of the two banks signed a statement saying that there are 392——

The Court: We all know that, Mr. Reycraft. We also know that he is yielding statistics; you are using them.

I will decide what other matters to get into.

That is all this amounts to, so why play back and forth [fol. 902] with the witness.

It is 11 o'clock. Let us take a ten-minute break.

(A recess was had.)

Mr. Reycraft: Would you mark as Government Exhibit 47 a three-page document headed "Future Earnings Prospects, Statements of Current Operating Income and Expense."

(Three-page document entitled "Future Earnings Prospects, Statements of Current Operating Income and Expense," was marked Exhibit G-47 for identification.)

By Mr. Reycraft:

Q. Dr. Gaffey, did this document also come from the application?

A. Yes, it did.

Mr. Littleton: I have no questions.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 48 a one-page document with the heading, "A statement of the Total Assets, Risk Assets, Deposit and Capital Accounts as of June 30, 1960 and the relative ratios are as follows:"

(Document headed "A statement of the Total Assets, Risk Assets, Deposit and Capital Accounts as of June 30, 1960 and the relative ratios are as follows:" was marked [fol. 903] Exhibit G-48 for identification.)

By Mr. Reycraft:

Q. May I ask, this also comes from the application, does it not?

A. Yes, it does.

Mr. Littleton: What page of the application?

Mr. Reycraft: At page 33 of the application.

[fol. 904] Mr. Littleton: I have no questions.

The Court: Is this a compilation of what we discussed yesterday, the capital and surplus up to $150,000,000? Is that just in graphic form?

Mr. Reycraft: That is right. It contains the capital account and the ratios.

Will you mark for identification as Government's Exhibit No. 49 a two-page document headed "Growth Record (Dollars in Thousands)."

(Document headed "Growth Record (Dollars in Thousands)" was marked Exhibit G-49 for identification.)

This comes from Pages 86 and 87 of the application.

By Mr. Littleton:

Q. Doctor, did you prepare this Table G-49?

A. No. That is taken directly from the application.

Q. I notice you give the growth record of Girard Trust and Corn Exchange and Philadelphia National, then you give the growth record of Girard Trust Corn Exchange Bank and Trust Company and the Philadelphia National Bank. The growth records of what other Philadelphia banks did you study at the time you were making this analysis?

A. Well, I made no detailed studies of the other Phila-
[fol. 905] delphia banks.

Q. What kind of studies did you make if you didn't make a detailed study?

A. Well, I had considerable information concerning the other banks for the last five years. This is a summary over ten years. I did not have ten-year data.

Q. Which banks were they?

A. They had available the statements of condition of about ten of the leading banks in Philadelphia.

Q. Which are they?

A. May I consult my notes here? I can't name them all from memory.

Q. Certainly.

A. First Pennsylvania Banking and Trust Company was one of them, and the Provident Tradesmens Bank and Trust Company, Central Penn National Bank, Broad Street Trust Company, Liberty Real Estate Bank and Trust Company, and Fidelity-Philadelphia Trust Company. Those were the principal ones.

Q. Did you look at any industrial trust companies?

A. I don't recall whether we got the statements of condition from that bank or not.

Q. Do your notes show? Do your notes show whether you
[fol. 906] did or not?

A. The notes I have here don't show that one.

Q. Did you get Citizens and Southern Bank and Trust Company?

A. I believe we did, and we got Second National Bank of Philadelphia, although I don't have it on——

Q. You didn't get Industrial Trust Company?

A. I don't know whether we did or not. We may have.

Q. They were subpoenaed, weren't they, Doctor? You subpoenaed the records, didn't you?

A. I don't recall.

The Court: I doubt that the doctor did.

By Mr. Littleton:

Q. Well, of those that you looked at, which ones showed the greatest rate of growth in the last ten years, Doctor?

A. I made no comparisons of that type for the last ten years.

Q. What comparison did you make?

A. Well, we got records only for the last five years.

Q. Well, which ones showed the greatest rate of growth in the last five years?

A. I don't recall.

Q. You mean you weren't interested? Didn't you go into that?

[fol. 907] A. Well, on a preliminary analysis basis I looked over and made some compilations which we didn't finally use.

Q. Were you interested in rate of growth?

A. Yes, but not particularly interested in comparative rate of growth of all the banks in Philadelphia.

Q. Why not?

A. Well, in the limited amount of time we had available there were only so many things that could be done, and that was an analysis that was not pursued further.

Q. Well, your counsel subpoenaed records of all these banks named?

A. Yes.

Q. And you said you made a limited study of them?

A. Yes.

Q. But you made no study of any kind or any analysis of any kind of rate of growth of any of them except the two defendant banks here; is that it?

A. Well, I have no final studies that show comparative rates of growth of these different banks.

Q. Do you have any interim studies?

A. I made some review of those figures.

Q. And what do they show?

A. I don't have it compiled and I don't have it in mind well enough to be able to tell you.

[fol. 908] Q. In other words, you don't know?

A. Yes.

Q. The answer is yes, you don't know?

A. I don't know.

Mr. Littleton: That is all I have.

Mr. Reycraft: Thank you, Doctor. I have no further questions.

Mr. Reycraft: The Government calls Ernest Clarke.

ERNEST S. CLARKE, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Flocken:

Q. Mr. Clarke, will you describe to the Court your position.

A. I am president of the Citizens Union National Bank and Trust Company of Lexington, Kentucky.

Mr. Littleton: Will the witness keep his voice up.

Mr. Reycraft: Mr. Clarke, will it be possible for you to speak up a little bit.

The Witness: Yes, sir.

By Mr. Flocken:

[fol. 909] Q. Would you describe for us your experience in the banking field.

A. I have been actively associated with a commercial bank since 1933. I was with the Liberty National Bank and Trust Company in Louisville, Kentucky, 1933 to 1946. I came to Lexington, Kentucky, in 1946 as president of the Union Bank and Trust Company of Lexington. I became president of the Citizens Union Bank and Trust Company in 1954. It became a national bank in 1958, and I am now president of that bank.

Q. So would it be correct to say that you have been in the banking field since 1933?

A. Yes, sir.

The Court: Well, let us not do any whispering around here. Get your voice up. I can't hear you.

The Witness: You can't hear me, sir?

The Court: I can hear you, but I can't hear counsel. Let us get the voice up.

By Mr. Flocken:

Q. The question I asked was, is it correct to say that you have been in banking since 1933?

A. That is correct.

Q. Mr. Clarke, on the basis of your experience in the banking field, would you describe for the Court generally [fol. 910] the functions of a commercial bank.

A. Well, I think commercial banks are somewhat unique in our economy in that they are the only institutions that I know of that provide a demand deposit function for the business and personal interests of the people of our communities. We are unique in that we create a large part of the money supply of the country by making loans. We serve the businesses of our community in making loans to commercial enterprises, to individuals, both corporations large and small. We have facilities for the transfer of funds between communities which I think are available in no other convenient manner. We attempt to fill a complete need in the economy for demand and savings account deposits and working capital loans for business.

Q. As a holder of demand deposits, does this have any effect on the operation of the bank?

A. Well, I think it is the principal function of a bank.

Q. You described financing business, sir. Would you describe generally the needs of local business.

Mr. Price: Describe what?

Mr. Flocken: The needs of a local business for short-term loans.

[fol. 911] Mr. Price: Where?

Mr. Flocken: In Lexington.

Mr. Price: Objected to, sir.

Mr. Littleton: I object to that.

By Mr. Flocken:

Q. Well, on the basis of your experience, Mr. Clarke, would you describe for us the needs——

The Court: Just a minute. When an objection is made, wait for the ruling.

I will sustain the objection to the question as phrased.

By Mr. Flocken:

Q. Generally speaking, Mr. Clarke, would you describe the needs of local business for short-term loans.

Mr. Price: Objected to.

Mr. Littleton: Objected to.

The Court: Fundamentally it is the same question. I sustain the objection.

Mr. Reycraft: May I be heard on this, Your Honor, for a moment?

The Court: No. If you want to take over the questioning, go ahead.

By Mr. Flocken:

Q. Are there unique services, Mr. Clarke, that the com-
[fol. 912] mercial bank provides?

Mr. Price: What?

By Mr. Flocken:

Q. What unique services does a commercial bank provide, in the category of loans?

A. To my knowledge, there is no other type of financial institution which meets the great majority of needs of business for working capital.

Mr. Littleton: I object to this unless the witness tells what the extent of his knowledge is.

The Witness: I don't understand your question, sir.

By Mr. Flocken:

Q. Have you made commercial loans, Mr. Clarke?

A. Yes, sir, many of them.

Q. To what types of people have you made those commercial loans?

A. As I think of commercial loans, they are to people or corporations in business, performing a service or a manufacturing need in the community.

Mr. Littleton: I object to this as being irrelevant to the issue before the Court and move that the answer be stricken.

The Court: Overruled.

[fol. 913] Mr. Price: If Your Honor please, so as not to have duplication of our objections, may we both understand that whoever makes an objection——

The Court: It redounds to the benefit of both defendants. Any time there is an objection by one, I will assume it is on behalf of both, and I will for the rest of this trial conclude that you have an exception, as well as the one that makes the objection.

By Mr. Flocken:

Q. Mr. Clarke, have you had any experience in dealing with savings and loan associations?

A. Yes.

Q. What has been the nature of that experience?

A. There are four building and loan associations in our community. Two of them do business with us. We have had many years of experience with them in that they are depositors of ours, have at sometimes in the past been borrowers for short-term loans, and that many real estate loans, because of the terms requested, we do not consider acceptable in our bank, we refer them to these two building and loan associations. I would say our contact has been rather close to them over the years.

Q. Why do you say they are not acceptable?

[fol. 914] A. Well, usually it is the length of time that they want the money for.

Q. It is for what period of time, generally?

A. Well, they want long-term financing, in which field we are not active in any way, shape, or form.

Q. You mean a commercial bank, you as a commercial bank?

A. We as a commercial bank are not interested in long-term loans.

Purchase of homes, purchase of new buildings for commercial or industrial purposes.

Q. Why is that, Mr. Clarke? Why is it that you are not interested in that type of loan?

A. Because we feel that we have to maintain a liquidity that is inconsistent with the terms of the loans requested.

Mr. Littleton: If Your Honor please, I object to this line on the ground that it is entirely irrelevant to the issue before the Court as to what this witness does in Lexington.

Mr. Flocken: I don't think it is irrelevant, Your Honor,

in that it is showing Mr. Clarke's experience, describing his experience as a commercial banker.

The Court: The objection is overruled.

[fol. 915] Mr. Littleton: I am inquiring, are these questions directed to qualifying this man as an expert?

Mr. Flocken: As an expert as based on his experience, yes.

Mr. Littleton: These are questions directed to his experience to qualify him as an expert, do I understand?

Mr. Flocken: He has been qualified, I believe, as an expert on the basis of his experience which he has described, which was not objected to in any way, that he had not been in the banking field for the stated period of time.

Mr. Littleton: I didn't understand that we were given any opportunity to cross-examine him as to his qualifications as an expert.

The Court: You haven't been given any, and I haven't declared him an expert.

By Mr. Flocken:

Q. Mr. Clarke, you talked about the commercial loans that your bank makes. What is your capacity as president of the bank in the loan field in that particular type?

A. I am the chief loan officer of our bank.

Q. What do you do in that capacity if a man comes in for a commercial loan?

[fol. 916] A. I try to analyze the situation, and if we possibly can we make the loan.

Q. On the basis of?

A. The facts presented, and if it is acceptable from a term standpoint and the possibility of repayment.

Q. In addition to your experience with commercial loans as president of the bank which you are now concerned with, you had additional experience prior to that time with commercial loans in your previous banking career?

A. Yes, I have been dealing with loans since 1933.

Q. And that experience extended to all phases of commercial banking; is that correct?

A. That is right, as I know it.

Mr. Flocken: Your Honor, at this point I would submit that he is qualified as an expert witness or as an expert in commercial banking.

The Court: To testify as to what?

Mr. Flocken: The functions and nature of commercial banks.

The Court: All right, let him testify to that.

By Mr. Flocken:

Q. Mr. Clarke, you previously said that a commercial bank was unique in certain respects. Could you recapitulate [fol. 917] that testimony. In the area, for example, of demand deposits.

A. I think it is unique in that it is the only institution that I know of that is accepting and is a repository for demand deposits and that it also is the only source that I know of for the working capital needs of the great majority of businesses in the country.

Q. Now, the fact that you accept demand deposits, has that anything to do with the commercial banks' function in commercial and industrial loans?

A. Well, I certainly think that the funds that we get from demand deposits are the funds that we use to lend to business to conduct its affairs.

Q. You mentioned earlier also the need to retain short-term loans.

A. We try to maintain liquidity at all times.

Q. Are there other characteristics that result from demand deposits, such as quality, risk, rate analysis, things of that kind?

A. Well, demand deposits are just what they say they are. They are payable on demand, and we feel that we must be in a position at all times to meet any demands made by our customers.

Q. Can any other financial institution make that type [fol. 918] of loan?

A. Not in most of the cases, to my knowledge.

Q. Let's go back to the savings and loan associations with which you have had experience. Would you recapitulate your testimony on the nature of your association and your dealings with savings and loan associations.

A. We have been depositaries over a long number of years.

Q. Perhaps, Mr. Clarke, you could at this point, since you testified as to this, indicate the differences between the com-

mercial bank and savings and loan associations, on the basis of loans.

A. On the basis of loans, I don't think we are in competition in any way, shape, or form.

Q. Now, Mr. Clarke, would you describe the function of the commercial bank providing working capital for all types of industrial business firms.

A. I think commercial banks are the only source of working capital for the average business.

Q. What do you mean by the average?

A. There are many large corporations which can tap the commercial paper market or the bond market or the equity market for their needs, but there are very, very few businesses in our area that can qualify for that type of financing. [fol. 919] Q. Would you say that small and medium sized businesses in your area rely primarily on commercial banks?

A. Almost entirely.

Q. Mr. Clarke, in your experience, do you say this would be true generally of small and medium sized businesses?

Mr. Littleton: Objected to, if Your Honor please. The former question was asked to his own area. Now he is being asked generally.

Mr. Flocken: I think he has been qualified, Your Honor, as an expert on commercial banking, and I think he would have an opinion as to whether or not small and medium sized businesses generally rely primarily on commercial banks.

The Court: We haven't heard his experience outside of Louisville and Lexington, Kentucky.

Mr. Flocken: Well, we think this is a typical community, typical banking community, that the small businesses in that area are much like the small businesses in any area.

The Court: I haven't heard any testimony to that effect except your statement.

By Mr. Flocken:

[fol. 920] Q. Mr. Clarke, I assume you have customers who come to you for commercial loans; is that correct?

A. Many of them.

Q. What do you do if they seek a loan that would be larger than your lending limit?

The Court: Read that question.

May I please urge you to keep your voice up. If I don't hear the question, I will have to go back and read the record, and I prefer to have it in the first instance and then review it.

Read the question back.

(The reporter read as follows:)

"Q. What do you do if they seek a loan that would be larger than your lending limit?"

By Mr. Flocken:

Q. How do you handle that situation?

The Court: I don't like to interfere. Maybe he has never had that experience. We haven't established that yet.

By Mr. Flocken:

Q. Mr. Clarke, have you had experience in granting customers loans which exceed your lending limit?

A. Yes, I have.

[fol. 921] Q. What was the nature of your experience? Can you describe what happened in these circumstances?

By the Court:

Q. What is your lending limit?

A. $250,000, and if we have an application for a loan exceeding that, and we think it is a good loan, we would take them to any number of our, what we refer to as city correspondents, and I have never had a bit of difficulty in arranging the funds for them if they qualify.

By Mr. Flocken:

Q. What do you call that type of arrangement?

A. Participation.

Q. A participation?

A. Where the correspondent takes the excess part of the loan above the amount that we can lend.

Q. I would gather from what you have said, then, that it would be important to a small businessman or a medium sized businessman or one of any size who needed a loan from you to have a favorable relationship.

Mr. Littleton: Objected to as leading.

The Court: Sustained. The question may be stricken.

By Mr. Flocken:

Q. Is it important for business to have a favorable rela-
[fol. 922] tionship with a commercial bank?

A. I certainly think so.

Q. Why is that?

A. Because, as I said earlier, I think he is largely dependent upon a commercial bank for his working capital needs in his business, and if he doesn't have a favorable relationship with some commercial bank, he has nowhere to go for working capital, in my opinion.

Q. Is it important that you have a knowledge of your community as a commercial banker?

A. Absolutely essential.

Q. Why is that, sir?

A. We have got to know with whom we are dealing, what businesses they are in, how they are thought of in the community, whether they are providing an essential service or an essential manufacturing facility.

By the Court:

Q. Wouldn't service be included in that just as well, Mr. Clarke?

A. Yes, I think so. It depends on the nature of the business.

By Mr. Flocken:

Q. What is your experience in participating in loans
[fol. 923] outside of your community?

A. We don't do it.

Q. You do not do it?

A. We do not do it.

Q. Why is that?

A. We feel like our primary responsibility is to our own community. We neither solicit nor accept loans from concerns that do not have some business in our community.

Q. You mean that if a borrower would come to you and ask for a loan outside of your community, that you would perhaps say no to him?

A. Except in exceptional circumstances where there is no bank adequate to take care of him in his location.

[fol. 924] Q. What is the general geographic area of your commercial bank's customers?

A. Largely from Fayette County, Kentucky.

Mr. Price: I didn't hear the answer.

The Witness: Fayette County, Kentucky.

By Mr. Flocken:

Q. Is that true of checking accounts, checking-account customers?

A. Largely, yes.

Q. Would it be true of personal and commercial accounts?

A. Yes, sir.

Q. And savings accounts?

A. Yes, sir.

Q. How about commercial loans?

A. The same thing.

Q. Is it desirable for a bank to provide its proper services that it be located near its customers?

A. We think so.

Q. Why is that?

A. Because of their own convenience, if nothing else.

Q. Mr. Clarke, on the basis of your experience will you describe generally for the Court the areas of competition between or among commercial banks?

A. For what?

[fol. 925] Q. Would you describe the areas of competition between commercial banks.

Mr. Littleton: You mean in Fayette County, do you?

Mr. Flocken: The ways in which your banks compete with each other.

Mr. Littleton: In Fayette County, Kentucky, I am inquiring?

Mr. Flocken: To the extent of his experience.

Mr. Price: I know, but that is the limit of your question, isn't it?

The Court: Yes. He is limiting it to his personal experience; and that he may tell.

The Witness: I think we compete in all areas of commercial banking—loans——

By Mr. Flocken:

Q. What way do banks compete in commercial loans?

A. Well, in the service that we will give the loans, the extent of the lines of credit, the terms with which we will make them, the rates of interest,——

Q. Would there be competition for personal loans as well?

A. Surely.

Q. How about checking accounts?

A. Well, about the only way you can compete for checking [fol. 926] accounts is to offer adequate facilities to the people whom you are attempting to get business from and deposits from.

We are prohibited by law from paying interest on demand deposits, so about the only way we can compete for them is in the service we render.

Q. How about savings accounts?

A. Well, the same extent, in addition to the fact that you are able to pay interest on those; and in our area we all happen to be paying the same rate of interest, which is the legal limit permitted by the law.

Q. Are there any other areas that you can think of in competition among commercial banks?

A. Oh, we provide Christmas Clubs, savings clubs, sell Travelers Cheques, get football tickets, buy a dinner occasionally—do anything we can to keep—to get people to do business with us in that respect.

Mr. Flocken: Thank you very much. Your witness, Mr. Littleton.

Cross-examination.

By Mr. Littleton:

Q. What you are really telling us, isn't it, Mr. Clarke, that the thing you principally compete in is service?

A. That's right.

Q. You are subject to all kinds of regulations, are you not?

[fol. 927] A. Yes, sir.

Q. Tell us some of the regulations you are subject to.

A. Well, we are a national bank. We are subject to all of the regulations in the national banking laws and the rulings of the Comptroller of the Currency.

We are subject to the amount of real-estate loans that we can make in relation to our capital funds and our savings deposits.

We are subject to regulations on the amount of interest that we can pay on savings accounts. We are prohibited from paying in any form interest on demand deposits.

We have a book several inches thick of rules and regulations that we constantly have to refer to.

Q. In other words, it is a highly-regulated industry, isn't it?

A. In many areas.

Q. And aren't there controls also on the amount of interest you can charge?

A. The only controls I know on that, sir, are the usury laws of the State of Kentucky.

Q. That is as to the high side?

A. That's correct.

Q. How about——

[fol. 928] A. We have no limit on the amount we can charge a corporation. We are limited to 6 per cent on what we can charge an individual in my state.

Q. What fixes your rate of interest when you are trying to determine the interest to charge a person on a loan that he has asked for, a commercial loan?

A. Demand and supply only.

Q. You have a rediscount rate, don't you, federal?

A. Yes.

Q. What is that? Tell us about that.

A. It's 3 per cent at present.

Q. Do you ever charge 3 per cent on a loan yourself?

A. I haven't for a long time.

Q. Do you usually get 6?

A. Yes.

Q. What reserves are you compelled to keep against deposits?

A. The reserves required by the Federal Reserve System.

Q. What do they amount to at the moment in your Federal Reserve District?

A. I believe they are 12 per cent of demand deposits and 5 per cent of savings deposits.

Q. They have a controlling influence on the rates that you charge also, do they not?

[fol. 929] A. Some influence. I wouldn't say a controlling influence, no, sir.

Q. You are also subject to regulation on the amount of money you can lend, aren't you?

A. That's set by law in Kentucky.

Q. That's right. It is a regulation, isn't it?

A. And also by the national bank. It's a law.

Q. 10 per cent of your capital and surplus; isn't that correct?

A. That's correct.

Q. And you are restricted as to your investments you can make, are you not?

A. Within a wide area.

Q. Can you buy stocks?

A. No, sir.

Q. Can you buy bonds of any corporation?

A. It depends upon their rating, sir.

Q. I say, can you buy bonds of any corporation?

A. No, sir.

Q. Does it have to be of a certain type?

A. Well, they have to qualify for a certain rating.

Q. That's right. So that you are subject to that regulation, also?

A. Right.

[fol. 930] Q. How about acquiring real estate? What regulation are you subject to there?

A. I think we can only acquire it for use in our own business.

Q. That's right. You are entirely different from an industrial or a business corporation, aren't you?

A. Oh, yes, to a certain—in many ways.

Q. What is it that you deal in?

A. What do we deal in?

Q. Yes.

A. We deal in service.

Q. And money?

A. And money.

Q. And where do you get your money?

A. From our depositors.

Q. Demand deposits can be withdrawn at any time, can they not?

A. Right.

Q. Whether you are a little bank, whether you are a medium-sized bank, or whether you are a large bank?

A. I am sure that's right.

Q. You talked something about commercial loans.

May I inquire, are there any factors in Lexington, in or about Lexington?

[fol. 931] A. There are not.

Q. There are not?

A. That's right.

By the Court:

Q. How big a town or city is Lexington?

A. Approximately 125,000 people.

Q. How big is Fayette County?

A. About 135,000.

Q. That is for the county?

A. That's right.

Q. County-wide?

A. That's right; and those are estimates. The official census will give you a lot lower figure than that, sir.

Q. Good for you.

How many banks are there?

A. Six.

Q. Six?

A. No, five. I beg your pardon, one is subject to an anti-trust suit.

Q. Are there any savings banks there?
A. No, sir.

The Court: All right.

By Mr. Littleton:

Q. When did you say you began your banking career in [fol. 932] Lexington?
A. April 1, 1946.
Q. What was the largest bank in Lexington at that time?
A. Do you mean in total resources?
Q. Let's take it your way. Which one had the largest capital assets?
A. It wasn't my bank.
Q. Well, which one did?
A. It was the First National Bank.
Q. And what were its assets in amount?
A. I can't remember what it was in 1946.
Q. What were its loans?
A. I can't remember those figures, sir.
Q. But it had the largest amount of loans, did it?
A. Oh, yes.
Q. And the largest amount of deposits?
A. Oh, yes.
Q. You don't remember what the percentages were of the total in Lexington?
A. It was about 40 to 44 per cent; somewhere in that area.
Q. In each category? In deposits, loans,——
A. That's in deposits, I am thinking of, and I imagine the loans were about in the same area.
Q. Is that bank still in existence?
[fol. 933] A. Yes, sir.
Q. What are its capital assets now?
A. It has recently merged with another bank.
Q. Before its merger.
A. Before its merger, it was roughly a $60,000,000 bank.
Q. And what proportion did that make of all the commercial banks in Lexington?
A. I think it was about 44 per cent.
Q. Is it still about 44 per cent?
A. Still about 44 per cent.

Q. Would that apply also to deposits and loans?

A. I think so.

Q. And your bank in 1946 had what proportion of all of the commercial banks' assets?

A. I think it was about 10 per cent.

Q. About what?

A. About 10 per cent.

Q. About 10 per cent? What is it now?

A. Well, we have merged with another bank since then and we now have about 19 per cent.

Q. And how about deposits?

A. They are about the same.

Q. And loans?

A. About the same.

[fol. 934] Q. In other words, you have increased and grown?

A. Oh, yes.

Q. You had no difficulty competing with these other banks, did you?

A. I always have difficulty competing with other banks.

Q. You are always competing, of course.

A. I am trying to.

Q. That's right.

And you are competing how?

A. In every way I can think of.

Q. The service you give?

A. The service I give, the attention we give to customers, calling on customers,——

Q. And that is what competition is in banking?

A. Anything within reason.

Q. And that is what competition is in banking, isn't it?

A. Yes, sir.

Q. And it doesn't make any difference whether you are small or whether you are large; that's what the competition is, is it not?

A. Yes, but we find it extremely difficult to compete with the larger banks, much larger banks.

Q. But you still do compete and you increase in size?

A. All right.

[fol. 935] By Mr. Price:

Q. Mr. Clarke, what other competitors do you have in Lexington, other than commercial banks?

A. Competitors for funds, I would say the building and loan associations.

Q. Building and loans?

A. Yes, sir.

Q. What others?

A. For small loans, we have finance companies for certain categories of consumer loans, and when I say "finance companies" I am speaking of small-loan companies, which in our state are limited to $800 and under.

In automobile financing we are competing with the larger finance companies in that field.

I can't think of any other area or areas that we are competing in loans. We are certainly not competing for the long-term real-estate loans, which the insurance companies and the building and loan associations will make.

Q. You don't consider that the insurance companies offer you any competition?

A. No, sir.

Q. Are there any mutual-savings banks in Lexington?

A. No, sir.

Q. You say you have no factors there, either?

[fol. 936] A. No, sir.

Q. Any credit unions?

A. A few, yes, sir.

Q. Do they offer you any competition?

A. Not of any consequence.

Q. Insurance companies?

A. No, sir.

Q. Commercial finance companies?

A. To the extent that I named.

Q. Are you in competition with any banks outside of Lexington?

A. To a very, very limited degree.

Q. What is the nature of it?

A. My experience is that the Cincinnati and the Louisville banks would not solicit loans in the Lexington area, or other business, except through some bank there on an excess basis.

Q. So that Louisville and Cincinnati are the two closest large cities, are they not?

A. That's right.

Q. And you say that banks in neither of those cities solicit business in the Lexington area?

A. Not to my knowledge. We'd give them an awful hard time if they did.

Q. Do you solicit business in either Louisville or Cin-
[fol. 937] cinnati?

A. If they have a connection in Lexington, yes.

Q. But if they have no connection in Lexington, you don't?

A. No, sir.

Q. Have you any competition with banks outside of those three cities—Lexington, Louisville, and Cincinnati?

A. Not that I know of.

Q. Are you aware of the fact that the Provident Tradesmen's Bank & Trust Company in Philadelphia is financing a floor-planning operation in Lexington?

A. Yes, sir.

Q. And you don't consider that competition?

A. Not if I can help it.

Q. What?

A. Not if I can help it.

Q. Then you are not in that type of business?

A. That's right.

Q. What is the limit of that type of business that you are in?

A. (No response.)

Q. You say you don't do floor-planning. That is a normal operation of a commercial bank, isn't it?

A. I would say it is not normal in our community.

Q. All right. It is not normal in your community, but it
[fol. 938] does exist, doesn't it?

A. I am sure it does, sir.

Q. Do you know of any banks in your community or in Cincinnati or in Louisville that floor-plan for automobile dealers?

A. I think that is principally done by the finance companies—Commercial Credit, CIT, GMAC, Associates Discount, and companies of that kind in our area.

Q. But have you heard of any commercial banks doing it?
A. To only a limited extent.
Q. But some do it, do they?
A. Oh, yes. I am sure they do.
Q. All right, but you don't?
A. No, sir.
Q. Now, to what extent do you limit your banking activities? I suppose you make commercial loans?
A. Yes, sir.
Q. And you receive deposits?
A. Yes, sir.
Q. What else do you do?
A. We have a trust department. We have——
Q. Is that a large trust department?
A. No, sir.
Q. A small one?
[fol. 939] A. Very small.
Q. When did it start? When did you begin?
A. 1906.
Q. And it is still a small trust department?
A. Right.
Q. You don't push that especially?
A. Sir?
Q. You don't push that especially, do you?
A. It depends on what you mean by "especially." We want all the good business we can get.
Q. But you haven't made any special effort to get trust business, have you?
A. Yes, but not very successfully.
Q. All right. Then what else do you do besides the trust business?
A. Well, we sell Travelers Cheques, we have Christmas Clubs, we have branch banks; but it's all tied in with deposits and loans.
Q. You have branch banks, you say?
A. Yes, sir; three of them.
Q. The branch banks do the same kind of business that your principal office does, don't they?
A. We attempt to limit our lending entirely to our main office.

[fol. 940] Q. But you mentioned some of the various activities of your bank.

Are there any others?

A. We try to provide a complete banking service as we know it in our community.

Q. Yes, but I am asking you to tell me precisely what it is you do to provide that service.

A. Checking accounts, savings accounts, Christmas Clubs, savings clubs, Travelers Cheques, personal loans, commercial loans, automobile financing at the retail level——

By the Court:

Q. Safe-deposit boxes?

A. Safe-deposit boxes and various and sundry trust activities. That's about all I can think of.

By Mr. Price:

Q. Now, you have considered that your responsibility was local and that you should be able to provide for all the needs of your local customers, have you not?

A. Yes, sir.

Q. So that in the operation of your bank you would do anything within the law which would serve your customers better, wouldn't you?

A. That's right.

Q. How many applications for a loan in excess of your [fol. 941] lending limits have you had?

A. Not too many.

Q. Can you think of more than one?

A. Oh, yes. Probably a half a dozen or a dozen.

Q. Didn't the prospective borrowers know what your lending limit was?

A. I am sure they did.

Q. Were there any banks in Lexington that had a higher lending limit than yours?

A. Yes, sir.

Q. Did you go to them for assistance?

A. No, sir.

Q. Where did you go?

A. I went to Cincinnati or Louisville.

Q. Why didn't you go to a local bank in Lexington?
A. I wouldn't think of it.
Q. Why not?
A. We are competing with them.
Q. So that you felt obliged to go to another city for assistance in handling the loan that you couldn't handle locally?
A. That's right, sir.

By the Court:

Q. You didn't want to lose the account?
[fol. 942] A. That's correct, sir. It's as simple as that.
Q. I agree with you. I think you used excellent judgment.
A. Thank you, sir.

By Mr. Price:

Q. Did the banks in Louisville and Cincinnati to which you applied for help in handling such loans require a deposit from the borrower?
A. No, sir.
Q. Did they have deposits from you?
A. Yes, sir.
Q. From your bank?
A. Yes, sir.

Mr. Price: That's all, thank you.
Mr. Littleton: Just one other question.

By Mr. Littleton:

Q. In making a commercial loan, Mr. Clarke, what is your usual rule as to the requirement of deposit balance to be maintained by the borrower?
A. We don't try to set any arbitrary limit.
Q. What is the usual?
A. We want somewhere between 10 and 20 per cent, depending upon the nature of the business.
Q. In other words, you get that—something between 10 and 20 per cent in connection with commercial loans?
[fol. 943] A. I won't say we always get it; we try to.
Q. You try to?
A. Yes, sir.

Q. This one borrower that Mr. Price just asked you about, where you said you went to Cincinnati to get your correspondent bank to help you with a loan, that was a customer of yours who stayed with you because he knew you and because you gave him service; is that correct?

A. That would be my assumption.

Q. He could have gone to any other bank in Lexington, could he not?

A. Well, of course.

Mr. Littleton: All right. Thank you.

Redirect examination.

By Mr. Flocken:

Q. Mr. Clarke, with respect to the concentration of banking facilities that Mr. Littleton brought out on cross-examination, what has been the effect of that concentration upon competition in your community?

A. Would you read that?

(The reporter read the pending question.)

The Witness: I think it makes it extremely difficult for us to get new accounts, particularly of national concerns, because my experience with national concerns is that you [fol. 944] have got to have some compelling reason for them to do business with you; and if there is some other bank in your community that completely overshadows you statistically——

By Mr. Flocken:

Q. What effect has this same concentration of facilities had upon the small and intermediate-sized borrowers in your community?

A. I think the banks in our community take pretty good care of the borrowers. I don't think any deserving customers have not been able to meet their needs.

Q. Now, Mr. Price asked some questions about some other financial institutions with which you indicated there is some area of competition between your commercial bank and the other financial institutions.

Can any of those other financial institutions that he mentioned handle or provide the services offered by a commercial bank?

A. Not in the demand-deposit and the commercial-loan field.

Q. In the area of personal loans, for example, in the personal-loan companies, is there a difference between their operation and yours in loans, personal loans?

A. We certainly like to think so.

Q. Is there a difference in rates of interest, for example?

A. Tremendous.

[fol. 945] Q. What do you mean by "tremendous"?

A. Well, we are limited by law to 6-per-cent discount on consumer loans up to $2,000; and they have just changed the law in Kentucky, and my recollection is that they can charge now 3 per cent a month, which would be 36 per cent a year, up to a certain amount of the $800 that they can lend (I think that's up to about $200); and they can charge 2 per cent a month up to about $450, and then they can charge 1 per cent a month on the excess to the limit of $800—something in that nature.

Q. So, there is a substantial difference in rate?

A. Tremendous, tremendous.

Q. Mr. Clarke, in respect to the demand deposits which you generally seek that a borrower put into your bank as against a loan, you have indicated 10 to 20 per cent; is that correct?

A. That's what we strive for.

Q. Do you also do that in granting lines of credit? Do you require the same percentage against a line of credit?

A. Yes, sir.

Mr. Flocken: That's all.

Recross-examination.

By Mr. Price:

Q. Mr. Clarke, you said that your borrowers were well [fol. 946] taken care of by the Lexington banks.

Do you know of any case where a deserving borrower who had a proper bankable loan with adequate security failed to get a loan?

A. No, sir.

Q. So that the only effect of this concentration you are speaking about was on the national companies which had very large funds to handle and dispose of; is that correct?

A. I'd say that's the principal thing.

Q. That is the only one you mentioned.

A. Well, I can assume that maybe there are some local people who want the facilities of a larger bank.

Q. That want the facilities of a large bank?

A. The facilities of a larger bank or the largest banks.

Q. But they have a choice to take either the largest or the smallest or an intermediate one, if they want?

A. That's correct.

Q. So the concentration doesn't affect their choice between banks?

A. Possibly not.

Q. Does it?

A. It depends on the customer himself as to what he is looking for in a bank.

Q. And he has complete freedom of choice?

[fol. 947] A. Right.

Q. Now, so far as the national companies are concerned, the very large companies, they would only deal with the largest bank or the largest bank in any event, wouldn't they?

A. (No response.)

Q. So far as your experience in Lexington is concerned?

A. We have a few of them. We'd like to have more.

Q. And the few that you do have deal with the larger or the largest banks in Lexington?

A. We are not the largest bank in Lexington.

Q. No. Have you any of their accounts?

A. Yes.

Q. And the larger banks also have some?

A. Most of them.

Q. But the smallest banks don't have any, do they?

A. I can't answer that.

Q. You don't know whether they have any?

A. I don't know, sir.

Q. All right. But, in general, you would say that the larger companies look to the larger banks?

A. Right.

Mr. Price: That's all, thank you.

[fol. 948] By Mr. Flocken:

Q. Mr. Clarke, it is a fact that the mergers that have taken place in Lexington have deprived the small or medium-sized borrowers of an alternative for credit; is that correct?

A. If you eliminate one bank, that's one source; but we have still got plenty left down there, I assure you.

Q. Now in respect to Mr. Price's last line of questions about accounts of larger companies, it is harder for your bank to get them; is that correct, as the big banks get bigger?

A. I certainly think that is true.

Mr. Flocken: That is all.

By Mr. Price:

Q. But that is purely a matter of choice on the part of the large companies, isn't it?

A. (No response.)

Q. They can go where they choose?

A. Right.

Mr. Price: That's all, thank you.

Mr. Flocken: No further questions.

The Court: If we are going to start a new witness, suppose we start at 2 o'clock. We will adjourn until [fol. 949] 2 o'clock.

(Recessed at 12:20 o'clock for luncheon.)

[fol. 950] [File endorsement omitted]

AFTER RECESS

Mr. Flocken: Your Honor, the Government calls John Forlines.

JOHN FORLINES, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Flocken:

Q. Mr. Forlines, will you tell us what your position is.

A. I am president of a small country bank in North Carolina, Caldwell County. We have offices in two communities, Granite Falls and Lenore.

Q. How long have you had that position?

A. I have been president of this bank since 1954. I first entered banking in 1939, when I graduated from college.

Q. What college, sir?

A. Duke University.

Q. Have you had any special courses or any special educational background in banking?

A. Well, I might say I spent six years in the Army in the Finance Department, which had some relationship to banking, and I have graduated from the Stonier Graduate [fol. 951] School of Banking at Rutgers. I am now assistant chairman of the Carolina Bankers Conference in Chapel Hill, North Carolina, University of North Carolina.

Q. Mr. Forlines, would you describe your duties as president of your bank.

A. Describing the duties of a president of a small country bank is somewhat of a chore, because you do a little bit of everything, but generally you are the chief executive officer and supervise lending activities and act as a liaison between your Board of Directors and the other officers of the bank in setting policies and carrying out policies as far as banking operations are concerned.

Q. Are there any other duties that you perform?

A. Well, in our particular case I am in direct charge of our investment portfolio, and, as I said, I suppose the most important thing would be the supervision of our lending functions.

Q. Mr. Forlines, do you have membership in any banking association?

A. I am on the Executive Committee of the North Carolina Bankers Association, and at the present time I am a member of the Public Relations Committee of the [fol. 952] American Banking Association.

Q. What is the nature of these associations you have? Do you attend meetings?

A. That is right. Our Public Relations Committee meets three times annually, and we, of course, exchange ideas with other bankers all over the country.

Q. So you have had an opportunity to observe operations or exchange ideas with other banks, other bankers, in other parts of the country?

A. Yes, sir.

Q. Do you have correspondent relationships with any other banks?

A. Yes, sir, we do.

Q. Would you mind telling us what they are.

A. We have correspondent relationships in our own state with most of the large banks—Wachovia Bank and Trust Company and North Carolina National Bank, to name two. We have a correspondent in New York and a correspondent in Chicago.

Q. Mr. Forlines, do you subscribe to and generally read literature or other periodicals dealing with banking economic matters throughout the country?

A. Yes, sir, I do.

[fol. 953] Q. Do you feel it is important for you as the president of a bank to be informed on banking and economic conditions throughout the country?

A. Yes, I do. I think it is particularly important in a small community like ours, when the people and the businesses depend to such a great extent on the bank as being a sort of hub of the financial community, so to speak. They call on you for all types of help and advice that probably would not be the case perhaps in a larger area where you had other agencies to do some of these things for you.

Q. On the basis of your observation of banking in other parts of the country than your own community, is it your view that commercial banks engage in generally the same activities or similar activities?

A. Yes, I would say so.

Q. Now, as to your bank, is it a state bank or a member bank?

A. Our bank is a state non-member bank.

Q. Are you insured by the Federal Deposit Insurance Corporation?

A. Yes, we are.

Q. Are you required to comply with the rules and regula-
[fol. 954] tions of the Federal Deposit Insurance Corporation?

A. Yes, sir, we certainly are.

Q. Are they the same rules that are generally applicable to commercial banks throughout the country?

A. Yes, sir.

Q. What are some of these requirements?

A. Well, the requirements of FDIC, of course, are much too lengthy to go into at this time. They have a publication about so big (indicating), but I would say that they periodically examine our banks, along with the state banking department, to see that we are meeting liquidity standards, to see that we have proper reserves, to see that our loans are sound loans, and if they are not, we learn about them in a hurry.

Q. Do these restrictions or regulations affect the type of business your bank is able to engage in?

A. Well, yes. As has been pointed out here, banking is under a great many restrictions and regulations as far as our supervisory authorities are concerned; but, on the other hand, there is a broad area where judgment and management is most important too. Somebody is not doing everything for you. They are just sort of giving you guide lines on which to go by.

[fol. 955] Q. Is it correct that all banks subject to FDIC are subject to the same regulations?

A. As far as I know, yes, sir. All banks, by the way, in our state, with the exception of one bank, is a member of the FDIC, I am sure.

Q. What are some of the ways in which these legal requirements affect your business? For example, demand deposits.

A. Well, of course, these supervisory authorities, FDIC being one that you mentioned, are particularly interested in our small bank in seeing that we maintain adequate liquidity, and that would be one area definitely. They are interested in the solvency of the bank, to be sure that we are operating it in a sound manner.

Mr. Flocken: Mr. Littleton, would like to examine the witness as to his qualifications?

Mr. Littleton: What are you going to offer him for?

Mr. Flocken: I offer him as an expert familiar with commercial banks generally, to the extent that he is familiar with commercial banks beyond his area.

Mr. Littleton: I haven't heard that he is familiar with [fol. 956] commercial banks beyond his area.

Mr. Flocken: Well, he has indicated that he attends meetings of national banking associations, that he is on various committees, that he has studied in this field.

Mr. Littleton: Could I ask him about that?

Mr. Flocken: Yes, sure.

By Mr. Littleton:

Q. Have you engaged in banking anywhere outside the State of North Carolina?

A. No, sir, I have not.

Q. Have you observed banking anywhere outside the State of North Carolina or have you just talked to other bankers at meetings, and so on?

A. Well, I haven't actually gone into other banks and spent any time in them, if that is what you mean, sir. Most of my observing has been done through reading banking periodicals and talking to other bankers, and that sort of thing, plus the fact that I did attend this Graduate School of Banking over a period of three years.

Q. Which one was that?

A. That was at Rutgers, Rutgers University.

Q. In New Jersey?

A. Yes.

[fol. 957] Of course, I have spent considerable time, I might say, with our larger correspondents at conferences, meaning First National at Chicago, annual bankers conference that they have every year, also Wachovia.

Q. You mean you attend the meeting in Chicago and your correspondent there is the First National of Chicago, did you say?

A. Yes, sir.

Q. Where they have all other correspondent bankers meet for two or three days?

A. That is right, sir.

Q. I don't think you told us the name of your bank. Did you?

A. I beg your pardon if I didn't. It is the Bank of Granite.

By Mr. Price:

Q. How large a bank is that?

A. Sir, my bank is about a $5,000,000 bank. It is a very small bank.

Q. What is your lending limit?

A. $90,000, a little over $90,000.

Q. What is the largest loan you ever handled at that bank?

[fol. 958] A. Oh, I think $440,000.

Q. You didn't handle that yourself?

A. We handled it. We didn't supply the funds for it because we naturally couldn't, since it is beyond our legal limit. We did it through the help of our correspondents.

Q. Where did you get help from?

A. Well, I don't remember in that particular case, but we can get help from any number of the correspondents that I mentioned just about any time we need it.

Q. Whom did you get help from in that particular case of $440,000?

A. Well, I think in that case it was Wachovia.

Q. I couldn't hear you.

A. Wachovia Bank and Trust Company.

Q. Did the Wachovia Bank take the whole thing?

A. In excess of our limit.

Q. They took it all over your limit?

A. That's right, sir.

Q. Were there any other instances of that, sir?

A. Well, the instances of making loans in excess of our legal limit are too numerous to mention, sir. It is a very common practice.

Q. Because your limit is so low, you have to do that [fol. 959] frequently; is that it?

A. Well, yes, that would be the reason we didn't make it ourselves, but I might point out that this correspondent banking relationship is rather unique, as I understand, in our country, and it is a very fine relationship, we think. It enables us to compete with larger institutions. For example, we are now competing with a branch bank in our county which is a $200,000,000 institution. This would be the only way that we could do so and keep from being absorbed by a larger banking chain if we were not able to do that.

Q. But you can compete by this method you described?

A. We think that is a very helpful way for us to compete, yes, sir.

Q. And you would do that regularly?

A. Yes, sir.

Mr. Price: No further questions.

By Mr. Flocken:

Q. Is it your opinion that commercial banks have a unique role to play in the economy?

Mr. Price: I am sorry; I couldn't hear you.

By Mr. Flocken:

Q. Is it your opinion that commercial banks play a unique [fol. 960] role in our economy?

A. Well, they certainly do. Of course, the most unique thing, I suppose, that a commercial bank can do, as I am sure most everyone here knows, is the fact that by making a loan, crediting the proceeds of that loan to the person's account, they can actually create a new source of money, which can only be done, I believe, by commercial banks in this country.

I suppose the other most unique feature of commercial banking would be its ability or a bank's ability to handle a wide variety of services and loans rather than to be limited to some specialized type of lending, such as savings and loan institutions or personal finance companies and that type of thing. It is a particular sort of umbrella type financial operation that we try to create in commercial banking.

Q. Mr. Forlines, are you familiar with the personal loan part of your bank business?

A. Yes, I am.

Q. Your bank engages in such business and makes personal loans?

A. Yes, we do.

Q. Can you distinguish the type of activity your bank [fol. 961] engages in in that field from that engaged in by personal finance companies, particularly in terms of risks and interest rates?

A. Well, to a large extent in North Carolina personal finance companies or small loan companies beam their operations toward an element of our economy, people who need to borrow money who do not have adequate security or could not go to banks to get it. They generally charge a little higher rate of interest, and for the most part we do not consider ourselves in competition with those companies.

Q. How much higher are those rates, Mr. Forlines?

A. Well, we are having quite a battle in our Legislature now, and they are going to be considerably lower than they are now, but they are quite high at the present time. I really couldn't give you the exact percentage. Banks, I might say, in our state, are limited to six per cent interest across the board, and we do average, are able to realize a greater return from our small loan operations, and, of course, banks have in the past number of years gone into that rather heavily, particularly the automobile loans.

Q. The personal loan company rate, though, is higher than your rate?

[fol. 962] A. Considerably higher, yes, sir.

Q. Are there other services a commercial bank has to offer in this area that distinguish it from a personal finance company?

A. Well, of course, the big service that commercial banks offer, of course, are checking accounts and savings accounts, which these companies naturally don't have, in addition to safe deposit boxes and many other services that banks offer.

Mr. Price: I can't hear you when you drop your voice. You start out strong and then your voice fades.

The Witness: I am sorry, sir. I said in addition to many other services that I mentioned a while ago in connection with our over-all services, safe deposit boxes, travelers checks, of course, that type of thing, that we call this umbrella type service that banks perform that finance companies do not perform. Of course, in our part of the country the banks, in a sense, lend money to these finance companies in many cases, so that they can perform these services that they perform.

By Mr. Flocker:

Q. Mr. Forlines, considering the personal loans that you have in your bank, that you make, whom do you think [fol. 963] of as your principal competitor or competitors for those particular loans at the rate and terms you grant?

A. Well, our banking competition is our principal competitor, obviously.

Q. You mean by that other commercial banks?

A. Right.

Q. Do you have any experience with real estate loans?

A. We make very few long-term real estate loans in our bank because we are a small bank.

Q. Why do you say that?

A. Primarily because of the fact that we have to make our loans on a short term basis. We have to keep our money turning over. We have to make short-term loans. That is what we consider one of the main functions of our commercial banking system. We like to in our bank have access to means of credit for all of our customers, and very often we use insurance companies or bring them into the picture to make these long-term real estate loans. We occasionally make the loan as long as five or six years on a first mortgage basis, but it is very rare in our bank.

Q. Are you familiar with the making of loans to financial institutions? Does your bank make such loans?

A. Yes, I mentioned a while ago to some extent we do.
[fol. 964] Q. Tell us what type they are and to whom you make such loans.

A. Well, there would be short-term loans, 90-day loans, for operation purposes to these financial institutions, generally our local area finance companies.

Q. Finance companies, savings and loan associations?

A. We don't make any to savings and loan associations.

Q. Personal finance companies?

A. Right.

Q. Sales finance companies?

A. Right.

Q. Do you feel that you are in substantial competition with these institutions that you lend *to* such money to for loans that you want to make?

A. Oh, no, we definitely do not. If we did, we would stop making the loans to them.

Q. I am sorry; I didn't hear that.

A. I think we would stop making those loans if we thought we were competing with them. We would stop making loans to them if they were offering competition to us in the type loans that we make.

Q. Mr. Forlines, as president of your bank I assume that you are familiar with the making of commercial and industrial loans; is that correct?

[fol. 965] A. Yes, sir.

Q. Will you describe the function of a commercial bank as a source of working capital for business.

A. Well, as I mentioned a while ago, it has the unique faculty, a commercial bank has the unique faculty, of being able to create money by this business of making a loan and making a deposit of those funds. Our big job in our area is to make what we call short-term loans to businesses and individuals for operating purposes, for inventory in businesses, and that type of thing. Is that what you meant?

Q. That is correct. I believe Mr. Price brought out that there are occasions on which you have made loans in excess of your lending limit; is that correct?

A. Yes, sir.

Q. And you indicated in answer to his question that you had no difficulty doing so?

A. None whatsoever. I think I might mention one area that you mentioned, real estate loans, a while ago, that we do participate in on a rather large basis, relatively speaking, and that is in the construction real estate phase of the business. While the building is being made, we often make a construction loan until final financing is arranged. I believe that large loan I mentioned had that type of feature.

[fol. 966] By the Court:

Q. Provided you had the insurance company commitment before you gave out your loan?

A. That is right, sir.

Q. Wouldn't that be so?

A. That is right, sir.

By Mr. Flocken:

Q. Mr. Forlines, in your opinion, is the role of the commercial bank important to the small and intermediate size business? Will you describe that for us, in the commercial field.

A. Well, I think that the role of a bank in small and medium size businesses is perhaps the greatest role that we have. That is where we play our biggest part and we are of the greatest help to those borrowers in those fields. I mean by that that in our case I don't honestly feel there would be any other source of credit for these types of borrowers. I mean merchants and contractors and people in our area. They know no place else to go except to a bank, whereas, just to contrast that, I am sure that larger national firms or tremendously big business, it is a relatively easy proposition for them to get loans. If they can't get it here, they can get it some place else or they can float an [fol. 967] equity issue or sell bonds or something of that nature which would be beyond the realm of a small or medium sized business.

[fol. 968] Mr. Littleton: If Your Honor please, I understand the last answer to be confined within the limits of Lenoir and Granite, and if it goes beyond that, I would move to strike the answer.

The Court: Motion denied.

The Witness: May I see what I said that last? What was that?

The Court: The motion has been denied on the record.

Mr. Flocken: I believe His Honor has ruled.

By Mr. Flocken:

Q. Mr. Forlines, what is the general area from which your bank draws its customers?

A. Well, our bank and banks in our state generally, I think, draw their customers from what is commonly called the trading area. In our case, that is our county, primarily with a little overlapping into another county because of the fact that one of our offices is right near the county line.

We don't go out much beyond that, as far as soliciting business is concerned.

I might say that we feel that that is our purpose, to take care of our local people; and we have been in no position (and very few banks have) to go out and solicit loans from other parts of the country, when they have had all they [fol. 969] could take care of at home. That's been our situation.

Q. Do you feel that it is important that a bank be close to the people that it is attempting to serve?

A. Well, I very definitely do in North Carolina, and I will add that because that's where my experience has been.

Most of our communities are local communities. They have been built by local capital. I think banks and bankers become acquainted with their customers and they look to them for advice and counsel, and it means a great deal to them.

I think a great deal is lost when these banks lose their local character, as many of them have done in our state in the last several years.

Q. In that connection, Mr. Forlines, have there been any bank mergers in your area?

A. There have been a rash of bank mergers in our area over the past several years.

I might say that North Carolina, for the benefit of those of you who may not know, has unlimited branch banking.

Mr. Littleton: If Your Honor please, I object to this line as being irrelevant to this issue before the Court.

[fol. 970] Mr. Flocken: Your Honor, I am attempting to establish a basis on which I can ask Mr. Forlines some questions about commercial banking and the effects of mergers on commercial banking with which he is familiar.

The Court: What can Mr. Forlines say about a merger and try to contrast it between his county and Philadelphia? Where would he be an expert on the effects of a bank merger unless you intended to limit it, and limit it strictly, to a merger in a small area? You so stipulated.

Otherwise, I won't let him testify.

Mr. Flocken: To the extent that the experience in his community extends beyond his local area, I think it may well indicate that.

The Court: He said that it extends in one county, and because one town is on the edge of the county it may extend into another one. That is what his testimony is; I don't think I missed any of it.

Isn't that what you said?

The Witness: Yes, sir; as far as my immediate experience is concerned, sir.

Mr. Flocken: My attempt, sir, is to attempt to ask him questions about the general nature of the effect of mergers in his entire state, not just the immediate city or county in which he happens to be located.

[fol. 971] I believe he would be familiar with that as a banker in that area.

The Court: When you begin to do that you had better qualify him to do it, because he is not qualified at this point.

By Mr. Flocken:

Q. Mr. Forlines, you have indicated some of your associations. Are you a member of any state banking associations?

A. Yes. As I mentioned, I am on the Executive Committee of the North Carolina Bankers' Association.

Q. What is the nature of that organization?

A. It's very similar to a trade association in any large area of business.

Q. Have you indicated that you have in North Carolina correspondent bank relationships, as well as others?

A. That's right, sir.

Q. And you are familiar, somewhat familiar, with the areas in which those banks are located?

A. Yes.

Q. And the nature of commercial banking in that area?

A. Yes, sir.

Q. Are you acquainted with or familiar with other mergers that have occurred in the State of North Carolina?

A. Very definitely so, sir.

[fol. 972] Q. Could you indicate the extent of your knowledge on those mergers? For instance, do you know of any mergers?

The Court: Just a minute.

Mr. Littleton: I object.

The Court: We are coming to a point of qualifications. Don't tell him how he should be qualified.

You have asked him a question. Let him answer.

Read the question back.

(The pending question was repeated by the reporter as follows:

"Q. Could you indicate the extent of your knowledge on those mergers? For instance, do you know of any mergers?")

Mr. Flocken: Your Honor, let me rephrase that by saying,——

By Mr. Flocken:

Q. Do you know of any recent bank mergers in the State of North Carolina?

A. Yes, sir.

Q. What is that?

Mr. Littleton: I object as being irrelevant to this issue.

The Court: It may well be. I am going to let him answer the question, though.

[fol. 973] Overruled.

The Witness: Well, as I mentioned, we have had a number of mergers. We have had state-wide branch banking, as I mentioned. For many years there were—there was only one so-called state-wide bank in our state.

During the last several years, due to mergers, there are certainly two or three others which are attempting to be

state-wide and to gain this stature they have merged with these local independent banks throughout the state.

They have been almost too numerous to mention. We have had just literally——

Mr. Littleton: I move that answer be stricken out.

The Court: It may remain.

By Mr. Flocken:

Q. Can you name any of those bank mergers that you referred to?

Mr. Littleton: Objected to.

The Court: Overruled.

The Witness: Yes, sir. The most recent merger was a merger when Wachovia Trust Company merged with the National Bank of Thomasville, which was a locally-owned bank in our state. I think that happened quite recently.

Our biggest merger in the last several years—we had [fol. 974] two of our larger banks in the state—North Carolina National Bank is the resulting institution from this merger that was a merger of the American Commercial Bank in Charlotte and the Security National Bank in Greensboro, forming the North Carolina National Bank.

This bank has since broadened its state-wide activities by merging with several other banks. One is Statesville, which is some 30 or 40 miles from our bank, another in Reidsville, I believe it is.

By Mr. Flocken:

Q. Can you——

A. Your Honor, if I may——

The Court: Just answer questions.

By Mr. Flocken:

Q. Has there been a bank merger in your area closer than any of these that you have mentioned, or did you describe one that was close that I didn't hear?

A. Two years ago in Lenoir there were two local, independent banks, neither of which was my bank. At that time we had no office in Lenoir.

By Mr. Price:

Q. Neither of which was what?

A. Pardon?

Q. You said two independent banks, neither of which [fol. 975] was——

A. Neither of which was my own bank.

Our bank at that time had no Lenoir office. This is a merger which has affected our area more than any other merger. This large bank in Charlotte merged with not one of those banks, but two of them at the same time, combining the total banking in that community into one institution. This was an area of a community of 10,000 people.

After that our bank applied for permission to open an office there because it was in our county (it was our county seat) and we were in competition with another large bank to do so and we were given the right to have this bank; so we are now competing with this branch bank in Lenoir.

That's the merger that I am most familiar with, sir.

By Mr. Flocken:

Q. Can you state that——

A. I might add that this merger not only lessened competition in this particular area, it eliminated competition completely.

Mr. Littleton: I move——

By the Court:

Q. There was only one bank there?

A. That's right.

Q. So you started a branch of your bank and now you are in competition?

[fol. 976] A. That's right.

Q. So there are two banks there now in competition, where there were two before; is that it?

A. That's right. The only difference is ours is a small locally-owned bank with total resources of $5,000,000 and we are competing with a $200,000,000 institution.

Q. But you are still in competition?

A. We are still in competition, and I didn't mean to sound as if I was complaining about it, either.

Q. Well, you still know the people around there and you still know their habits, customs—frugality and integrity—don't you?

A. Yes, sir. Our bank does.

The Court: Your bank does.

By Mr. Flocken:

Q. Does the other bank?

A. I can't answer that question. I think——

Q. In your opinion.

A. In my opinion——

Mr. Littleton: Now wait a minute. I object.

Mr. Flocken: I beg your pardon?

Mr. Littleton: He said he couldn't answer the question and then he started to answer it.

[fol. 977] The Witness: I mean, I can not speak for the bank.

By Mr. Flocken:

Q. Well, in your opinion, is the other bank as familiar — the local problems as you are?

Mr. Littleton: Objected to.

The Court: Sustained.

By Mr. Flocken:

Q. Let me ask this:

Do you know of any other bank mergers in your state than those that you have mentioned specifically by name?

A. Well,——

Q. Are there others?

A. Well, they have been up and down the state. As I have said, we have come from about 250-some banks down to about 175 banks now in the last several years, roughly, so they have been in almost every area. There has been no other bank in our—no other bank merger in our county, but there has been one in all of the adjacent areas around us.

Q. Do you have an opinion as to the result of this merger movement in your area?

A. Yes. I think it's been——

Mr. Littleton: Don't state what it is.

The Witness: Pardon?

[fol. 978] Mr. Littleton: He just asked you if you have an opinion.

The Witness: I very definitely have an opinion.

By Mr. Flocken:

Q. What is it, Mr. Forlines?

The Court: Just a minute.

Mr. Littleton: Objected to.

The Court: Read that question, Mr. Lennox, the basic question.

(The pending question was repeated by the reporter as follows:

"Q. Do you have an opinion as to the result of this merger movement in your area?")

The Court: I will sustain the objection.

Mr. Flocken: Your Honor, I thought the reason I was not allowed to inquire originally was because we had not indicated his familiarity with bank mergers in his area.

I think we have now done so and that he does have an opinion as to what effect the mergers have had in his area and that we are entitled to have his opinion.

The Court: I would be much obliged to you if you would keep your voice up because again I didn't hear what you said.

What did he say?

[fol. 979] * * * commercial banking in these other areas that we have indicated through correspondent bank relationships.

The court: Again read back what he said.

(The proceedings were repeated by the reporter as follows:

"The area in which he understands commercial banking in these other areas that we have indicated through correspondent bank relationships.")

Mr. Littleton: My objection is on the ground of irrelevancy, Your Honor.

The Court: He may answer as to his own particular area.

The Witness: Sir, in my area, in response to the question (and this is my opinion) this trend in North Carolina has been very bad. It has concentrated banking resources in large centers of finance, large to us—Charlotte, for example.

It has done away with local independent banks which we think are very important, that have built our economy. It has eliminated this person-to-person type of banking that the people were familiar with and used to. Now they are dealing with people in far-away places by direct telephone lines and things of that nature to a great extent.

I think that it has been very disadvantageous to the [fol. 980] public. I think in many cases, for example in the one I mentioned in Lenoir, it hurt for a time, certainly, and we are trying to keep it from hurting now. It hurts small and medium-sized businesses, because many of them had lines of credit in both these banks when they were absorbed. Instead of having twice as much line of credit, in many cases their line of credit was cut terribly.

It means that all of these people doing business with these independent local banks in our state have to start over with a new relationship, in many cases with the larger successor bank.

I think the trend has been, in our case, largely caused by a desire to become big rather than a desire to be of service to the people.

By the Court:

Q. Then I understand you that these banks that come in couldn't perform any greater service than was already being performed; they added nothing to the community except trouble as you explain it. Is that what you are saying?

A. I would say that, yes, sir.

Q. And your idea being that the branch manager of the bank would be an outsider who wouldn't know the local people and who wouldn't be as willing to loan?

A. I am saying, sir, in many cases there would be a bank [fol. 981] on the other side of the state, with nothing in common with the problems in another part of the state; and they have simply taken this bank over to obtain its

resources for reasons—perhaps management was old or some such thing as that—and there was no real reason for them to do that except to increase their own resources, perhaps profits, or some other reason, sir.

Q. So that is the experience.

How big is the town you live in?

A. I live in a town of about 3,000 people, which is right outside of Lenoir—Granite Falls, North Carolina. Lenoir is a little over 10,000.

Q. What is the population of the other town in which you have your branch?

A. One, 3,000; and one, 10,000.

We have about 50,000—60,000 people in the county.

The Court: All right.

By Mr. Flocken:

Q. Mr. Forlines, as a banker, do you have an opinion as to the effect approval of the Philadelphia National Bank-Girard merger would have on bank mergers in your area?

Mr. Littleton: I am going to object to that whether he has an opinion or not.

[fol. 982] The Court: I will let him answer whether he has an opinion.

Read that question back carefully. Read it carefully, and the witness will listen to it carefully.

(The pending question was repeated by the reporter as follows:

"Q. Mr. Forlines, as a banker, do you have an opinion as to the effect approval of the Philadelphia National Bank-Girard merger would have on bank mergers in your area?")

The Witness: I am not sure I understand the question.

I don't think the merger would have any effect on banking in our area, if that is what the question is.

By Mr. Flocken:

Q. Mr. Forlines, I said bank mergers. I said——

Would other mergers be likely to follow is what I intended to follow in my question, if a merger of this size is approved?

Mr. Littleton: I object.
Mr. Price: Objection.
The Court: Sustained.

By Mr. Flocken:

Q. Do you have an opinion as to whether other mergers [fol. 983] would follow?

Mr. Price: Objected to.
The Court: Just a minute. Don't answer that
That question has been asked, has been objected to, and the objection sustained.
Mr. Flocken: No further questions.

Cross-examination.

By Mr. Littleton:

Q. Did you say your bank was a $5,000,000 bank?
A. Yes, sir.
Q. That is, the total assets are approximately $5,000,000?
A. Yes, sir.
Q. Ten years ago how much were those assets?
A. About $1,250,000, I will estimate.
Q. So it increased $3,800,000 in ten years?
A. Well, yes, sir. Our increase, of course, has been larger during the last year or two.
Q. That would be what, about 225 or 230 per cent rate of increase, wouldn't it?
A. Yes, sir. I suppose that's right.
Q. And you have total deposits of something over $4,000,000 at the present time, do you not?
A. Yes, sir.
Q. Ten years ago what were your deposits?
[fol. 984] A. (No response.)
Q. About $1,400,000, were they not?
A. I would suppose so.
Q. So you have got a rate of increase of almost 200 per cent there, haven't you?
A. I came with the bank in 1954, so I am trying to——
Q. I am talking about your bank.
A. Yes.

Q. You have a rate of increase of about 200 per cent there?

Your total loans at the present time are a little over $2,000,000, are they not?

A. Yes, sir.

Q. And ten years ago they were $730,000, approximately, were they not?

A. That sounds about right.

Q. So you have a rate of increase of about 200 per cent there, too, do you not?

A. Yes.

Q. And your lending limit at the moment is how much?

A. A little better than $90,000.

Q. A little better than ninety?

A. Ninety.

Mr. Price: I couldn't hear it. It's hard enough to hear you without putting your hand over your face.

[fol. 985] A. $90,000.

Excuse me. I think it must be my Southern accent. I am sorry.

Mr. Price: Your accent is all right, but if you put your hand over your mouth I can't hear anything.

By Mr. Littleton:

Q. Ten years ago what was your lending limit?

A. Possibly less than $25,000.

Q. It was about $11,000, wasn't it? About $11,000 or $12,000?

A. It could have been, sir. I don't have the figures before me that you have.

Q. So you got an increase there of well over 500 per cent in ten years?

A. I might say that this lending limit has been accomplished by broadening our stockholder base and selling additional stock to our people.

Q. And you were able to sell the stock?

A. Without any question. We were oversubscribed twice.

Q. And you were able to pay your dividend on the stock by your operations?

A. Yes, sir; increased it in the last six years, every year.

Q. So you are competing vigorously?

[fol. 986] A. You bet your life we are.

By Mr. Price:

Q. And successfully?

A. Yes, sir. I think so, within reason.

Q. Who are your competitors?

A. Our local banking competitors? Is that what you mean?

Q. Any competitors. Who are your competitors that you are competing successfully against?

A. Well, this bank that I mentioned, this $200,000,000 bank that's in Lenoir is our prime competition for deposits and loans in our area.

Q. Do they come in and seek business in your area?

A. They are in our area. They are the bank, the successor bank of the two independent banks that were there. They merged with them.

Q. All right; then that's your principal competition?

A. Yes, sir.

Q. That is a $200,000,000 bank?

A. Yes, sir.

Q. And what is their lending limit?

A. Oh, I have no idea exactly. When they merged they may have——

Q. Approximately.

A. They made a to-do about how much they could lend. I [fol. 987] think at that time it was about $1,000,000. It's up since then because they have taken over several other banks and had several other mergers.

Q. Anyhow, it is more than ten times——

A. To the best of my knowledge, they have not made a $1,000,000 loan, however, after doing a great deal of advertising that they could make such a loan, for the simple reason that I don't think anybody around our part of the country would know what to do with $1,000,000.

Q. At any rate, they have a lending limit which is more than ten times yours?

A. Yes, sir.

Q. Is there any other bank with which you are in competition?

A. Not in our county. We have two other banks across the river, within 4 or 5 miles of one of our offices in Catawba County, which we are competitors with, but the competition isn't quite as bad.

Q. But you are able to take business in that area, also, are you?

A. Yes, sir, to some extent.

Q. And you say that is further away?

A. That's right; without the county, more than just further away.

[fol. 988] Q. In another county, but in any event you compete there successfully, don't you?

A. Well, not as successfully because we don't put the effort into it there, as much as we do in our own county.

We advertise our bank to be locally-owned, independent-operated, by Caldwell County citizens.

We have over 400 stockholders in our bank.

Q. Four?

A. 400, which is pretty big down our way for a small bank, a large number; so we try to beam our operations to Caldwell County as much as possible.

Q. So that where you concentrate your activity you are much more successful than where you don't exert it so much, exert your efforts so much?

A. Well, I would say so, perhaps.

Q. Yes.

May I ask you what these papers are that you are referring to so frequently?

A. (No response.)

Q. Did you write these documents?

A. Papers?

Q. Yes.

A. Oh, I'm sorry if it was bothering you.

Q. It doesn't bother me at all. I was curious to know [fol. 989] what they were.

A. I tried to interrupt a while ago because this was the first time I have ever been in court and I didn't know I wasn't supposed to.

I simply have before me something dated last July, where one of the press agents in North Carolina interviewed a number of banks about the merger trend in North Carolina, sir, and these are answers to those questions which I gave to them.

I thought one or two of them might be pertinent, but I doubt if you'd want to hear any of the answers, sir.

Mr. Flocken: If Your Honor please, we would like to identify this document for the record.

By Mr. Price:

Q. What about the other long piece of paper that you have there, that brief?

A. Oh, that's just an outline of some questions that might be asked. I haven't really been looking at that, but this is something that was prepared by the United States Government in connection with this case.

Q. The United States Government gave you that list, did they?

A. That's right.

[fol. 990] Q. Of questions and answers?

A. No answers, just questions.

Mr. Price: That's all.

Mr. Flocken: Your Honor, we would like to have marked for identification the document that Mr. Forlines has referred to.

The Court: You may mark it for identification.

Leave it with the reporter.

Mr. Flocken: That will be G-50.

(Six-page carbon copy of letter dated July 13, 1960, on letterhead of The Bank of Granite, addressed to Mr. Joseph C. Koenenn, signed by John A. Forlines, Jr., was marked Exhibit G-50 for identification.)

Mr. Flocken: We have no further questions, Your Honor.

The Court: All right. You are excused.

Mr. Reycraft: The Government calls Warren Smith.

[fol. 991] Warren Smith, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Reycraft:

Q. Prof. Smith, what is your present position?

A. I am professor of economics at the University of Michigan, Ann Arbor, Michigan.

Q. Do you have any other duties at the University of Michigan?

A. Well, I am—in addition to my teaching and research duties—what is called the Director of Graduate Studies in the Department of Economics. I think that's about it.

Q. What is the function of the Department of Economics Studies?

A. The function of the Department of Economics?

Q. Yes, sir, of which you are a director?

A. Well, oh, you mean the Graduate Students' Program?

Well, I am responsible for the administration of the Graduate Program in Economics at the University of Michigan largely, and I am responsible for advising graduate students with respect to the courses they are supposed to take, and I have various duties of that sort. I am sort of the sub-chairman of the Economics Department for graduate students, you might say.

Q. Prof. Smith, what has been your education?

[fol. 992] A. Well, I graduated from high school in 1932 and because of personal circumstances was not able to go to college or a university until 1940; so there was an eight-year gap there.

I went to the University of Michigan as a freshman in 1940 and then my career there was interrupted by military service, and I completed my B.A. degree in 1947; continued and took my Master's degree in 1952—in 1949, excuse me—and then completed my Ph.D. degree at the University of Michigan in 1952.

Q. After you received your M.A. did you begin teaching economics?

A. Yes. I taught as a teaching fellow and junior instructor at the University of Michigan for several years and spent one year after I completed my Ph.D. as an instructor in the department.

Q. Prof. Smith, in what field is your M.A.?

A. Well, that's a—all I can say is simply that my M.A. degree was simply in general economics.

Q. And your Ph.D.?

A. Well, my Ph.D. thesis was in the field of what you might call monetary theory. It had to do with the theory of interest-rate determination.

Q. Did you teach at the University of Michigan, Prof. Smith?

A. Yes. I taught at the University of Michigan from [fol. 993] 1947 to 1953 as a graduate student, teaching fellow, and instructor; and then for one year as an instructor after I had completed my Ph.D. degree, and then I taught at the University of Michigan again from 1957 to date, with certain interruptions.

Q. Did you teach at the University of Virginia?

A. I taught at the University of Virginia from 1953 to 1956; for three years.

Q. What courses did you teach there?

A. Well, let's see. I taught money and banking, undergraduate courses, graduate courses. I taught economic theory, I taught a course in investment analysis. I also taught some international trade and international monetary courses.

Q. Did you teach at Ohio State University?

A. I taught for one year at Ohio State University, 1956 to 1957.

Q. In what subjects did you teach there?

A. Well, again I taught money, undergraduate money and banking courses, and a graduate course in money and banking, and a sort of combined graduate-undergraduate course that was called Money Markets.

Q. After completing your teaching at Ohio State, did you then go back to the University of Michigan?

A. I went back to the University of Michigan in 1957. [fol. 994] Q. Have you ever taught at any other university?

A. Well, in 1958-59 I was invited to spend a year at Harvard University in Cambridge, Massachusetts, as a visiting lecturer, taking the place of one of their senior faculty members who had a leave of absence for that year.

Q. What courses did you teach?

A. Well, I taught the undergraduate money and banking course, and also taught the graduate course in money and banking at Harvard University.

Q. Prof. Smith, have you ever been a consultant to the Federal Reserve Banks?

A. Well, when I was teaching at the University of Virginia for a period of some two or two and a half years, I have a little trouble remembering exact dates, I was a consultant to the Federal Reserve Bank of Richmond.

Q. Have you ever been a consultant to any committee of Congress?

A. Well, yes. In 1959 and 1960 I served as a consultant to the Joint Economic Committee in connection with the big study that the committee was doing, largely done by an outside staff, called The Study of Employment, Growth, and Price Levels.

Q. And you participated in this study?

A. Yes. I participated in two ways. I participated in it [fol. 995] as one of the members of the group that wrote the staff report which the committee turned out; and I also wrote one of the so-called study papers.

I wrote a study paper on debt management for the Joint Economic Committee.

Q. Have you been a consultant to any department of the Federal Government?

A. Well, I am at the moment a member of a group of some 20 to 25 economists who are consultants to the Treasury Department on questions of monetary policy, debt management, fiscal policies, and so on.

Q. You are a consultant to the Secretary of the Treasury in that capacity?

A. Well, I am a member of a consulting team. I wouldn't want to put it that I am that exactly.

However, we have had one session of this group and the Secretary of the Treasury attended the meetings and took part in the discussions.

Q. Have you been a consultant to the Commission on Money and Credit?

A. Yes.

Q. Will you describe what that commission is?

A. Well, the Commission on Money and Credit is an organization that was established a couple of years ago by [fol. 996] the Committee for Economic Development, which is a businessmen's group. The Committee for Economic Development supported this Commission on Money and Credit, and the Ford Foundation put up a very large sum of money to finance it.

The function of the Commission on Money and Credit has been to make a very large-scale study, the largest one that has been made so far, as I know, in the last forty or

fifty years, of the whole American monetary and financial system.

The commission is just about finished its work and is now in the process of turning out its final report, which will be out in the next month or so.

Q. Will that study include in part the role the commercial banks play in the economy?

A. Yes—I can't vouch for the contents of a report that has not yet been published, but this is distinctly within the area of the interest of the Commission on Money and Credit.

Q. Prof. Smith, are you a member of any professional association?

A. Well, I am a member of the American Economic Association, of the American Finance Association, and of the American Association of University Professors.

Q. What does the American Finance Association do?

A. Well, it's a group that consists largely of teachers, [fol. 997] and also practitioners in the field of finance and banking. It publishes a journal called The Journal of Finance, which is published quarterly and contains articles on financial and monetary matters.

[fol. 998] Q. And you were a member of Phi Beta Kappa, were you not?

A. That is right.

Q. Have you written any articles or papers?

A. Well, yes, I have written a number or articles and papers, yes.

Q. Have you written any involving banking?

A. Well, monetary policy, which obviously includes a good deal of emphasis on commercial banking as well as other financial institutions, has been the main field of my interest for the last, well, I guess ten years.

Q. And you have written substantially in this field?

A. Yes, I have written a number of articles.

Q. I have a list of your publications, Professor Smith, which I would like to mark for identification.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 51 a two-page document headed "Bibliography" and "I. Articles and Papers," and the first article is "Professor Gurley on Fiscal Policy in a Going Economy," published in the Journal of Political Economy.

(Document headed "Bibliography I. Articles and Papers" was marked Exhibit G-51 for identification.)

[fol. 999] The Court: Well, it is 3:00 o'clock. We will take our break at this point.

(A 10-minute recess was taken at 3:00 o'clock P.M.)

[fol. 1000] Mr. Reycraft: Before proceeding, I wonder if I might ask permission to make copies of Exhibits 50 and 51 overnight. We only have one copy.

The Court: Surely.

By Mr. Reycraft:

Q. Professor Smith, are you in the process of writing a book?

A. Yes, I am.

Q. What type of book are you writing?

A. Well, as a matter of fact, it is a textbook in the field of money and banking, which will deal with commercial banking, other financial institutions, Federal Reserve System, monetary policy, fiscal policy, and so on—a standard type of textbook in this field.

Q. Covering the entire range of money and banking?

A. That is right.

Q. Professor Smith, in connection with your preparation for your testimony in this case have you had an opportunity to consider whether there are unique features of commercial banking?

A. Yes, I have.

Mr. Reycraft: Pardon me. Before I continue, do you want to cross-examine on qualifications, Mr. Littleton?

[fol. 1001] Mr. Littleton: Yes. Perhaps, if Your Honor please, if I ask for an offer of proof as to what this witness is going to testify to, it may limit what I may ask him as to his qualifications on cross-examination.

Mr. Reycraft: Your Honor, the witness is going to testify at some length, and I would say that he is going to testify about the unique features of commercial banking generally, the role of money creation in the banking system, the process of bank credit expansion, the function performed by the Federal Reserve, the credit controls of the Federal Reserve.

He is going to testify with respect to the discount rates and open market operations of the Federal Reserve System with respect to regulation and protection of depositors in commercial banks generally, to place the role of commercial banks in our economy in context. He is going to testify with respect to distinctions between commercial banks and other financial institutions, with respect to the reasons why special protection for depositors in commercial banks is needed, the liquidity requirements of commercial banks, solvency requirements of commercial banks, the capital requirements of commercial banks, and the degree to which commercial banks are regulated and the degree to which [fol. 1002] commercial banks are subject to the normal forces of competition.

Then he is going to testify with respect to the market structure and competition in commercial banking with reference to the effect of increasing loan limits and larger loans, the effect they have on the flow of funds from an area where large loans are made. He is going to testify with respect to competition among commercial banks in the national, regional, and local markets, the impact on small business of bank mergers, and increasing bank concentration.

He is going to testify with respect to the sources of capital in financing of large and small businesses, with respect to the bank debt of large and small corporations, and the effect it has upon their business; an analysis of the possible effects of an increase in lending limits of banks, the effect upon interest rates on the variations and sizes of banks, the types of loans which banks can concentrate on with respect to their size, interest rates charged large and small business, and as it applies particularly to this particular merger.

[fol. 1003] Mr. Littleton: That is, you are going to ask him his opinion as to the effect of this particular merger on all these things?

Mr. Reycraft: I am going to ask him his opinion with respect to certain aspects of this merger, yes.

Mr. Littleton: Doctor, may I ask you a few questions?

The Witness: Sure.

By Mr. Littleton:

Q. Your field has been principally that of monetary policy, monetary control?

A. Yes.

Q. Aside from this new book that you are writing, what have you written particularly on commercial banking?

A. Well, I have written a good bit and include some evaluation of the impact on the economy of the performance of commercial banking and the way in which credit controls work through commercial banks, and in evaluating the working of monetary controls I have had to be concerned to a considerable extent with the operation of commercial banks.

Q. This large report which you say is coming out shortly, in which you participated——

[fol. 1004] A. Let me put that straight. The Commission on Money and Credit—this is the thing you are referring to—I am not a member of the Commission—the Commission is composed largely of businessmen, and so on. What I have done with respect to this work is, I have, as have a number of other people, served as a consultant to the Commission on Money and Credit and have written some material which has been submitted to the Commission on Money and Credit, and to the best of my knowledge will in the course of time be published. The Commission is now in the process of publishing its report. It has not yet published the staff reports.

One of the things I did which is quite directly related to commercial banking, is the study I did for the Commission on Money and Credit, which is a study of bank reserve requirements. They wanted somebody to evaluate bank reserve requirements and see what ought to be done in this area, and I did this job for the Commission.

Q. But the section of this report which is about to come out, which you are referring to, the part of it which has to do with commercial banking, do I understand you did not write it?

A. I did not.

[fol. 1005] Q. What part did you have?

A. I did not write the report. I was a consultant to the Commission. They assigned me tasks, and the major one

of them was writing a monograph for the Commission on the subject of member bank reserve requirements.

Q. But not on commercial banking?

A. Well, no, no.

Q. Mr. Reycraft has stated that you are going to be asked your opinion as to this particular merger. What materials related in particular to Philadelphia have you had committed to you and studied?

A. Well, I have gone through the application that the Philadelphia National Bank and the Girard Trust Company submitted to the Comptroller of the Currency asking for permission to carry out the merger, and the reports that the other agencies prepared, with the Comptroller's report, the report of the Federal Reserve Board, the report of the FDIC, and the report of the Department of Justice, on this merger application, and I have also gone through a good many other materials that the Department of Justice has collected from the banks. I have also ——

Q. Before you leave those, will you tell us which they were. Have you been in court the last couple of days?

A. No, I have not. I have been outside the court room [fol. 1006] working on this case.

Q. Are you familiar with the exhibits that the Government has had identified?

A. In general, yes.

Q. Have you seen all of those?

A. I am not sure I have seen all of them.

Q. You think you have seen most of them?

A. I think I have probably seen most of them, yes. I have been working on some other aspects of the case. I think there are some things about this case that one can work on that have validity, that involve some general knowledge of the working of banks and of the banking system, and I have been working on this kind of material. I have used some local statistics and materials in connection with these studies.

Q. What other materials have you used?

A. Well, I have used some of the material from the responses that the banks made to the Government's questionnaire with respect to the bank loans and bank lines of credit. I have used some ratios and things derived

from depositions that the Department of Justice received from some of the witnesses in this case, and materials of this kind.

Q. When did you begin working on it?

[fol. 1007] A. Well, I have been working intensively on it for about the last ten days, and I worked off and on it for another two weeks before that but was interrupted very frequently. After all, a university professor has to teach.

Q. In other words, you have been reviewing all these things in the last three weeks?

A. That is right.

Q. In your work, either during college or since college teaching, have you made any study at all of the Philadelphia area banking?

A. No, I have not.

Q. This is your first contact?

A. That is right.

By Mr. Price:

Q. When were you first retained or asked to be a witness in this case?

A. I am terrible at remembering dates. It must have been around the 10th of May or thereabouts.

Q. About a month ago?

A. That is right.

Q. Had you testified before in matters of this sort?

A. Not before a Court.

[fol. 1008] Q. Had you testified on behalf of the Government before?

A. In what connection, sir?

Q. In any case.

A. No.

Q. The monetary controls that you referred to in answer to Mr. Littleton's question were governmental controls or regulatory controls of some sort, were they not?

A. That is right.

Q. Not just the forces of economics independently of Government regulation?

A. No, but I have been concerned in my work with the way in which the controls that the Government uses impinge upon—the controls, after all, impinge upon and work

through free markets, and I have been concerned with the way in which the controls are managed by the authorities and also by the way in which the structure of markets in commercial banking and other financial institutions influence the way in which the controls work, so I have been somewhat concerned with the market structures in this area in connection with my other work.

Q. I merely wanted to understand that the controls were regulations of some Governmental agency.

A. Right. Largely the Federal Reserve System.

[fol. 1009] Q. You said that you had acted as consultant to some committee of Congress or committees of Congress. Were you consulted in connection with the amendment to the Banking Act which resulted in the act of 1960?

A. No, I was not.

Q. Have you ever been consulted by any committee or act as an advisor or consultant to any committee of Congress in connection with the consideration or revision of banking laws?

A. No.

By Mr. Reycraft:

Q. Professor Smith, in your preparation for your testimony here have you had an opportunity to consider whether commercial banking has unique features?

A. Yes, I have.

Q. And what was your conclusion in that regard?

A. Well, I have broken down what seemed to me to be the unique features of commercial banks into four headings. I suppose someone else could reorganize these into a different number, but here is the way I see the picture.

In the first place, it seems to me banks are unique in the sense that they are the only financial institutions that are [fol. 1010] able to create money in the form of commercial bank demand deposits and also to create credit to a substantial degree beyond the amount that is made available by the current savings from income; and as a result of their ability to create credit, we have found it necessary, as has almost every other country in the world, to have controls and regulations over commercial banks in the interest of controlling the supply of money for the purpose of main-

taining a stable economic system. That is one thing. Banks create credit and therefore are subject to regulation in the interest of controlling the money supply.

The second unique feature of commercial banks that seems to me to be important is that the commercial banks to a great extent, in a modern economic system, are the administrators of our payment system. Most of our large payments, particularly those that are made between economic units some distance apart, are carried out by using checks, rather than the old-fashioned method of using currency, and the banks are the administrators of this machinery for making payments. That is the second item.

The third is that banks have some peculiar features with [fol. 1011] respect to the nature of their operations. As an economic unit a commercial bank has some distinctive characteristics that distinguish it from non-financial institutions and also from other types of financial institutions, and these unique features of commercial bank operations have made it necessary in this country and in most other countries also to regulate commercial banks and to control commercial banks, not only for the purpose of maintaining economic stability through controlling the money supply, but also in the interest of protecting bank depositors against losses on their deposits. That is in addition to the regulations over banking designed to control the money supply, we have a number of regulations that are designed to protect bank depositors. That is the third thing.

The fourth is that commercial banks are unique with respect to their lending and investing activities, it seems to me, in two different ways: In the first place you might say they are the most general and widely operating financial institutions we have. Sometimes we refer to commercial banks as the department stores of finance. There is almost no area of finance that commercial banks do not engage in to some extent.

[fol. 1012] That is the first point, but then there is the second point. The second point is that while commercial banks operate in a wider range of credit markets than almost any other financial institution we have—I will modify that—than any other financial institution we have, in spite of that, they also specialize and have specialized particularly in certain areas, the most important one of

which is the making of commercial loans to business enterprises, and also in certain aspects of the financing of consumers. So that is the fourth point, that they are unique in their lending aspects in the sense that they are the most general and also that they are highly specialized in certain areas that other institutions do not operate in to a very great extent.

Q. Professor Smith, directing your attention to the first unique feature you have described, that of money creation, will you explain how that comes about.

A. Well, in the first place, I think it might be well to point out that most economists these days would define money in the sense that to a layman might appear a little broader than he would think. That is, we would include not only currency and coins that people carry around in their pockets, but we would include check deposits or demand deposits of commercial banks as part of the money [fol. 1013] supply, simply because most of our payments are made by the use of checks in the transfer of demand deposits from one customer to another. So the usual definition of the money supply is that it includes all the commercial banks demand deposits adjusted, that is, demand deposits held by individuals, partnerships, corporations, and state and local governments essentially, plus what we call currency outside banks, that is, the amount of currency, the best we can judge, that is held by the general public.

Now, just to get an idea of the magnitudes involved, the money supply of the United States at the end of 1950 was 144½ billion dollars on this basis. Out of that 115.1 billion, or 79.7, practically 80 per cent, was in the form of demand deposits, most of which had been created by commercial banks in the process of making the loans or investments according to a procedure that I shall attempt to describe in a minute.

I might add that not only does 80 per cent of our money supply consist of commercial bank deposits which are liability claims directly against commercial banks, but the other 20 per cent arise in the form of currency which got into circulation largely as a result of bank operations. That is, not only do bank liabilities themselves constitute part [fol. 1014] of the money supply, but even the part that is

not bank deposit liabilities largely find its way into the economic system by passing through the commercial banking system.

Now, let me outline that just a little bit more about that in addition to creating money the other side of the coin is the commercial banks creating credit. They make loans. They are able to expand their loans and also their deposits and also to pump currency into the economy through their lending operations; and I just might add that other financial institutions, such as savings and loan associations, mutual savings banks, life insurance companies, personal and sales finance companies, and so on, are not able to engage in this process of money creation the way commercial banks are. Most of these other financial institutions either collect savings from individuals and make them available to finance investment activity, or else, as in the case of sales finance companies, to a great extent they collect money partly through selling securities to people, but also partly through borrowing from the banking system and then making it available to other people.

These other institutions are what we frequently refer to in economics as financial intermediaries. Their job for [fol. 1015] the most part is collecting savings from people and making that savings available to other people or to firms for financing expenditures in excess of the current income flow of those people.

I think it would be worthwhile to go through with some care the process by which commercial banks and the banking system as a whole create credit. There is some testimony I hope to give later on which will require an understanding of some of these points.

I have an exhibit that I hope will help to make it possible for me to proceed through this explanation of the process of bank credit creation with alacrity, and I hope make it understandable.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 52 a three-page document with the title "Hypothetical Illustration of Expansion of Credit by Commercial Banks."

(Document entitled "Hypothetical Illustration of Expansion of Credit by Commercial Banks" was marked Exhibit G-52 for identification.)

By Mr. Reycraft:

Q. Professor Smith, referring to your exhibit; will you continue your testimony.

Mr. Littleton: If Your Honor please, I would appreciate [fol. 1016] it if Mr. Reycraft would state what the relevance of this testimony is to the issue before the Court.

Mr. Reycraft: It seems to me the unique characteristics of commercial banks is one of the crucial issues in this case. You have taken the position or your bank has taken the position in the application and throughout this case that competition from other financial institutions narrowed your markets and reduced your market percentages, and we are going to demonstrate in this testimony that commercial banks are unique and that competition among commercial banks is of considerable importance, that commercial banks cannot be replaced by other types of financial institutions, that small and medium sized business relies almost completely on commercial banks for financing, and that commercial banks play a role in our economy in creating credit, creating money, that is performed by no other institution. It seems to me that all of these features distinguish commercial banks, and this is one of the purposes of this testimony. It also lays the foundation, as the Professor has indicated, for some analysis and observation that he has which relate very directly to the claims which have been made by the defendants with respect to the effect [fol. 1017] of their limits on attracting additional business and improving business in this particular area, and this foundation will show, and the later analysis, that these claims are not sound.

Mr. Littleton: Passing for a moment your telling me what my argument is in this case, which I haven't advanced yet, I still would like to know the relevance of what the Professor is talking about to the issue before the Court.

Mr. Reycraft: It is as I have stated.

Mr. Littleton: I object on the ground of irrelevance, Your Honor.

The Court: I will hear it. Overruled.

A. I prepared this exhibit, as I say, for the purpose of illustrating the process by which credit and money are created by commercial banks. It is a somewhat oversimplified illustration, and when I get through running rather quickly through it, I will point out some of the qualifications that have to be made to it.

What I have assumed, as you can see from reading this thing, is that we have one bank—perhaps I should begin by describing a little bit more about the banking, a little background about the banking system that we need. In [fol. 1018] our country we have, for purposes of this kind of analysis, two different kinds of banks. We have several subclassifications of banks in other connections, but for purposes of this kind of analysis of credit creation we have banks that are members of the Federal Reserve System and banks that are not members. The banks that are members of the Federal Reserve System have to hold reserves behind their demand deposits in percentages that depend on their location. For example, at the present time banks in what we call central reserve cities, market reserve cities, have to carry reserves equal to 16.5 per cent of their deposits, and the country banks, so-called, that is, banks outside the larger cities, have to carry reserves equal to 12 per cent of their deposits. These reserves must be carried in the form of deposits at the district Federal Reserve Bank or in the form of cash, that is, currency or coin in the vaults of the bank, and the control by the Federal Reserve System of those reserves serves to set limits on the expansion power of the commercial banking system.

There are, I might say, over half the commercial banks in the United States that are not members of the Federal Reserve System, so it will sound like the Federal Reserve policy is not as important as you might think at first. However, 85 per cent of the bank deposits, approximately [fol. 1019] 85 per cent of the bank deposits in the United States are located in member banks, in spite of the fact that member banks constitute a little less than half the commercial banks in the country, so that an analysis that assumes, as I do here, that all banks are members of the Federal Reserve System and have to carry reserves in

the form of deposits in the Federal Reserve System is substantially in accordance with the truth.

I have assumed that banks have to maintain a 20 per cent reserve requirement for purposes of simplicity in expounding here, and I have started off by assuming that one of the banks in the system gets $100,000 of additional reserves by borrowing, as banks that are members of the Federal Reserve System have a right to do, at the District Federal Reserve Bank. When it borrows from this District Federal Reserve Bank, as indicated in a little T-type balance sheet in the beginning here, this bank will get credit to its reserve account, as we call it, that is, the reserves asset here, which is its deposit account at the Federal Reserve Bank.

It gets a credit of $100,000, and the other side of its balance sheet shows bills payable. That is the amount of his borrowing at the Federal Reserve District Bank of $100,000.

[fol. 1020] At this point I should mention that Federal Reserve Banks create credit also. In this case the Federal Reserve Bank of the district in which Bank A is located has created, really, out of thin air, 100 of additional deposits on its books in favor of Bank A which serve as the reserves of Bank A for purposes of its extension of credit. That is, the Federal Reserve System creates credit, too, but it creates it in the form largely of reserves.

[fol. 1021] Now, the first stage in this process is that Bank A has $100,000 of reserves in excess of its requirements, since I assumed to begin with it had deposits exactly equal to 20 per cent of its reserves; so it had, as we economists put it, no excess reserves to begin with.

It now has, as a result of borrowing, $100,000 of reserves in excess of requirements and it will now be possible for the bank to make loans to customers or buy securities to the extent of about this $100,000.

In the second little key account, two thirds of the way down the first page, this is shown. The bank makes loans of $100,000 and the customers take these loans in the form of credits to their demand-deposit accounts, which is the reasonably common way in which borrowers do take the proceeds of commercial loans at commercial banks.

Now, however, when borrowers obtain funds in this way from commercial banks we can reasonably expect that they will utilize the funds so borrowed within a relatively short time after the funds have been received, so I have assumed here that within a relatively short time the customers who borrowed the $100,000 from this Bank A utilized the $100,000 of deposits to make payments, perhaps to pay for inventories or for other purposes.

Our banking system is unique in one respect, which I [fol. 1022] intend to dwell on a little later on, and that is that we have a very large number of independent or, as we call it, "unit," commercial banks in the United States. We have approximately 13,000 independent banks in this country as contrasted with many other countries which have a highly-concentrated banking system.

Now, under these circumstances when a borrower obtains funds from a bank, as in this example that I have worked out here, we could expect that when the checks are written, since we have so many banks in the country, most of the checks that are written will lodge themselves, as a result of having been received by the person to whom payment is made, in the hands of other banks in our system; so I have assumed that all such checks written on this original 100 loans made find their way to other commercial banks in the banking system.

When that happens, those banks will send the checks in for collection—if they are member banks certainly they will send them, very likely, through the District Federal Reserve Banks for collection. When the Federal Reserve Banks get those checks they will reduce the reserves of Bank A, the one that made the loans on which the checks were written, to the extent of $100,000 and they will increase the resrve of other banks, the banks that received the [fol. 1023] checks and sent them in for collection, by the same amount.

So that as a result of having made these loans, to wind up the analysis of Bank A, Bank A (the first bank in the process) will lose 100 of reserves and 100 of deposits when the customers use the funds obtained from borrowing; so that when Bank A gets through with it it will have an additional 100 of loans, it will have lost the reserves that it originally received, it will have lost the deposits that it

originally created in making the loans; the deposits will not show up in Bank A but will transfer to another group of banks.

Now I have described the banks to which the deposits transfer as Banks B, but I might sum up this first stage by saying that it is the sort of standard rough formula with respect to a single commercial bank in a system like ours that it can lend an amount, safely afford to lend an amount, about equal to the amount of excess reserves that it has available. It can't lend several times its excess reserves; it can only lend an amount about equal to its excess reserves.

However, as I have proposed to show here, as a result of operations working through other stages and spreading through the banking system, the banking system as a whole can lend an amount equal to several times its [fol. 1024] reserves.

Now we come to Stage 2. The deposits and reserves lost by Bank A are now deposited in another group of banks, and I have tried to identify these banks simply by calling them Banks B. They are that group of banks which received the checks written on the original loans made by the first bank.

Now, the original deposits that were made, that were created in Bank A as a result of making the loan, were deposits that the bank could rely on that would very likely be lost by it within a very short time, so that the bank had to have on hand, when it made loans like that, reserves sufficient to cover those deposits because it could expect very promptly to lose the reserves.

However, the deposits in Banks B that result from the deposit of checks written by the customers who borrowed at the first stage, are of a different sort. That is, they actually come into existence as a result of people bringing checks into the bank and really depositing them in their accounts rather than by a process of creating deposits through bank lending.

Past experience has told bankers that when deposits are created by customers voluntarily coming in and depositing checks or perhaps currency, there is a certain [fol. 1025] stability of this relationship and it is safe to carry fractional reserves behind these deposits. As a matter

of fact, the legal reserves that are imposed by the banking authorities are probably higher than the banker normally would really, if called upon himself, if it were left to his own judgment, carry behind his deposits.

Accordingly, I have assumed that Banks B set aside $20,000 of the reserves they obtained as a result of the receipt of these checks as reserves behind those deposits, and they have then $80,000 of what we call excess reserves which they can lend or invest.

When, however, they make loans and investments with the $80,000 of excess reserves, by the same argument that I used in connection with Stage 1, these banks can expect to lose deposits and reserves (the newly-created deposits and reserves along with them) to the extent of the $80,000 of loans, and I have put down a little key account down here, about two thirds of the way down page 2, showing that Banks B first make loans of $80,000, creat demand-deposit credits to their customers of $80,000; and then, when the customers use those deposits and on the assumption that virtually all the checks written will go to other banks, these banks, Banks B, lose 80 of reserves and demand deposits go back down by 80.

Stage 3 is very similar to that. At Stage 3 another [fol. 1026] group of banks, which I designate as Banks C, receive the reserves and deposits resulting from the loans made by Banks B at Stage 2. Again, they can safely operate on a fractional reserve behind the newly-created 80 of deposits they receive from their customers, so they set aside 16 of reserves and they have 64 of excess reserves, which they proceed then to use as a basis for making further loans.

So, Banks B, in the key account right near the bottom of page 2, show reserves increased by 80, demand deposits increased by 80. When they receive the checks written on the deposits created by the loans of Banks B, then they make 64 of loans and their customers take 64 of credits to their deposit accounts.

Then the customers promptly use the 64 deposits created and in any bank, banking system like this, it is a reasonably safe assumption to assume that the reserves are lost by Bank C; so, Bank C's reserves and deposits go down by 64 and these reserves and deposits go to another bank and this process can continue.

Now, I don't propose to carry that any further, but merely rather to recapitulate.

If we look back through the analysis that I have just presented we will see that Banks B, the second-stage banks, come out with $100,000 of additional deposits that didn't [fol. 1027] exist before this process of credit-creation began; that Banks C, the next stage, come out with $80,000 of additional deposits; that Banks D (that will be the next stage) would receive $64,000 of deposits; and so on, in a series of stages.

What happens is that this process goes on, spreading reserves around the economy from bank to bank, and in the process a pyramid of deposits and loans is built up. The limit in this particular case on the size of that pyramid of loans and deposits is approximately $500,000. That is, the banking system can create approximately $500,000 of additional deposits and make about $500,000 worth of additional loans on the basis of the additional $100,000 of reserves received in the first instance by Bank A borrowing from the Federal Reserve Bank.

The final key account on page 3 shows the situation of the banking system when this course is all over with as compared with what it was at the beginning. The banking system now has 100 of additional reserves. While these reserves have shuffled around from one bank to another, they have not left the banking system. It has bills payable to the original borrowing of the first bank of 100. The banking system as a whole has additional assets in the form of loans made to customers of $500,000, and it also [fol. 1028] has additional liabilities in the form of demand deposits to the extent of $500,000.

Now, the conclusion that I would draw then is that even though any individual bank—and this is an important distinction. In some cases it is very important in our banking system to distinguish between lending power of one bank which can, roughly speaking, lend only the amount of reserves it can afford to lose, which is the amount of its reserves in excess of requirements, and the lending power of the banking system, which is several times the amount of excess reserves for the banking system as a whole.

As a matter of fact, arithmetically the multiple by which the banking system can expand credit is approximately

equal to the reciprocal of the reserve requirement after the operation of the commercial banking system. In this case the reciprocal of the 20 per cent is 5, and so the sort of multiple by which the banking system can expand credit on the basis of additional reserves is 5; that is, on the basis of additional reserves of 100, it can expand credit by about 500.

Now, that concludes my run-through of the process of credit expansion. I would just like to point out two or three qualifications to this argument and analysis, which I might say is pretty standard analysis on the part of [fol. 1029] economists of the way bank credit is created.

The first qualification is that this is only potential expansion. There has to be loan demand or attractive investments for the bank to make here or they are not necessarily going to carry this out. Ordinarily, except in periods like the 1930's, when we had a terrible depression, the banking system does, in fact, tend to expand credit about as far as it can on the basis of reserves it receives.

The second point is that things in the real economy are a little more complicated than this because the different banks are subject to different reserve requirements rather than a uniform requirement and because, in addition to a member bank, we have some non-member banks that are subject to reserve requirements set by state authorities.

Finally, I would like to point out that I am not saying here that an individual commercial bank can't make a loan unless it has in its possession, when the customer comes in, excess reserves because a commercial bank can, when a customer comes in, if it does not at the moment possess excess reserves, proceed to make several adjustments.

For example, it can sell some of its commercial paper or Government securities in the open market to obtain the funds needed to make the loan; or it can borrow funds from the District Federal Reserve Bank for that purpose. [fol. 1030] But if we take the amount of reserves that a bank has as being given and take the composition of its assets and other liabilities as given, then this analysis indicates the approximate limits of credit expansion for the single bank and for the commercial banking system.

Q. Prof. Smith, this entire example that you have given us depends upon a banking system with a large number of banks; isn't this correct?

A. Well, that's right.

It does in this sense—that if we had a highly-concentrated banking system, then the individual bank coincides with the system and multiple credit expansion could be carried out by the single bank alone. That is, this peculiar sort of thing about how an individual bank is more limited than the banking system is a peculiarity of the American system, in which we have very many commercial banks.

Q. Would you explain how the Federal Reserve credit controls apply to the commercial banking system?

A. Well, now, as I said at the beginning, commercial banks are regulated for several different reasons, and one of those reasons is because of this business that I just discussed about their being able to create credit.

[fol. 1031] It is by controlling, basically controlling, the amount of reserves available to the banking system that we are able (the Government and the monetary authorities of the country) to control the supply of money, for instance, to tighten it up, reduce it, perhaps, or slow down its rate of increase in times of inflation with a view to stop rising prices or to increase its rate of growth or to increase the total of it to fight unemployment and recession in the economy.

Now, this is the function, the main function, at least, of our Federal Reserve System, which is, unlike the central banking systems in other countries, a decentralized central banking system. Not only do we have a decentralized commercial banking system with very many small commercial banks, but we also have a decentralized central banking system, consisting of 12 regional Federal Reserve Banks, one of which is the Federal Reserve Bank of Philadelphia, located next door to us, and as a top supervising agency in this field, the Board of Governors of the Federal Reserve System, consisting of seven members appointed by the President for the purpose of coordinating our credit-control activities.

Now, the Federal Reserve's chief function is to control the supply of money and credit in the economy in [fol. 1032] the interest of maintaining economic stability

and the generally-healthy economic situation. They do this fundamentally by controlling the supply of member-bank reserves, that is, the reserves that I was talking about in my discussion of bank-credit expansion; and fundamentally we have in this country three major devices that the Federal Reserve System can use to control the supply of member-bank reserves.

One of these methods is by establishing or changing or fixing the percentage of reserve requirements that member banks have to hold behind their deposits. As I indicated, those requirements are now, for reserve-city and central-reserve-city banks, 16½ per cent; and for banks in smaller centers, 12 per cent.

Now, the Federal Reserve can change these percentages. It can lower them for reserve-city and central-reserve-city banks as low as 10 per cent, and it can raise them for those banks as high as 22 per cent. For country banks, it can lower the requirements as low as 7 per cent or raise them as high as 14 per cent.

By raising the requirements, then it ties up some of the reserves that the bank carrying more reserves in relation to the deposits they already have and it restricts their ability to create credit and money.

[fol. 1033] By lowering the requirements, it permits the bank to increase the amount of loans and investments and money that they can create on the basis of the reserves they have.

That is one control.

A second device that the Federal Reserve uses is the discount rate, which has some influence on the extent to which member commercial banks borrow from the District Federal Reserve Bank. By encouraging, lowering the discount rate and perhaps doing other things to encourage member banks to borrow reserves at the District Federal Reserve Bank, as in the example I went through, the Federal Reserve can supply additional reserves to the banking system so as to permit credit to expand, and by tightening up and raising the discount rate, contracting the amount of its loans to the commercial banks, it may be able to exert an influence in the direction of contracting credit.

That is the second device.

The third one, and I might say by all odds the most important method the Federal Reserve has for controlling

the supply of money and credit is what we refer to as open-market operations; that is, the Federal Reserve can buy and sell United States Government securities in the open market. That is, simply going to Government-security [fol. 1034] dealers and placing, buy or sell orders, the same as anybody else would, the Federal Reserve System is able to, by buying United States Government securities and pumping its own funds into the banking system in payment therefor, expand the supply of member-bank reserves.

On the other hand, if it wants to contract credit, by selling United States Government securities in the open market and taking the funds received into its own accounts and taking them—this means that they come off the balances, the reserve balances of member banks—it can contract the supply of reserves and put restrictive effects on the banking system, force a contraction of credit, a move that it might take in time when inflation threatened the economy.

I would like to point out (and I think it is of some relevance here to recognize) that not all of these weapons are really of equal importance. The really important weapon the Federal Reserve uses is the open-market operation, which has a direct influence and is a flexible weapon that it is using all the time.

The point that I am trying to emphasize here is that banking, it is true, is a regulated industry. It is substantially regulated, but one of the main reasons it is regulated is that it has the function of creating money. We have reg- [fols. 1035-1037] ulations on banking. One reason is because such regulation is necessary in order to permit the central authorities to do what the Constitution tells them they are supposed to do, namely, control the supply and availability of money.

Mr. Reycraft: Does Your Honor wish to continue?

The Court: It is close to 4 o'clock. I think we will suspend for five minutes and then I will hear your application.

We will suspend the case until tomorrow morning at 10 o'clock.

(Adjourned at 3:58 o'clock P. M. until 10:00 o'clock A. M. on Thursday, June 8, 1961.)

[fols. 1038-1039] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

FOURTH DAY

Philadelphia, Pa., June 8, 1961

Before Hon. Thomas J. Clary, J.

* * * * * * *

[fol. 1040] WARREN L. SMITH, resumed.

Direct examination (cont'd.)

By Mr. Reycraft:

Q. Professor Smith, yesterday you testified with respect to what you described as the first unique function of the feature of the commercial banking system, namely, money creation. Would you be able to summarize briefly that testimony so that we can go on to the next unique feature of commercial banking.

A. Yes. To summarize what I was saying yesterday, commercial banks play a key role in our economic system, in large part because they are the unique institutions that are able to create money through the process of expanding their loans and investments, or I might say reduce the supply of money through the contraction of their loans and investments; and I tried to demonstrate yesterday that in a banking system such as we have, this process is a bit complicated due to the fact that the expansion power of a single bank in the system is different from the expansion power of the system as a whole.

I tried to show that individual banks having a certain amount of excess reserves can expand its loans by about that amount, but in this process of making loans the bank loses reserves to other banks, thereby permitting other

[fol. 1041] banks to expand credit, and the banking system as a whole can expand credit several times over.

I mentioned in the example I used yesterday that the multiple amount of credit expansion possible for the banking system was 5 to 1. This was because I happened to select 20 percent as my hypothetical reserve requirement. It is generally accepted, I think, in our banking system today that the reserve requirements at the level now in effect, I think most of the Federal Reserve estimates are that the multiple power expansion of our banking system is about 6 or 7 to 1. That is, an increase of, say, a million dollars in member bank reserves will permit the money supply and the amount of bank loans in general to expand in the neighborhood of 6 to 7 million dollars for the banking system as a whole. I might add that this expansion usually takes place quite rapidly. This is quite a fast-moving process.

Then I tried to explain that as a result of the fact that commercial banks do increase and decrease the supply of money through their operations, it has been necessary for us to develop a set of controls over commercial banks in order for the Government to be able to regulate the total supply of money in the interest of economic stability, and [fol. 1042] that these controls are the primary responsibility of the Federal Reserve System. That is the main reason we have a Federal Reserve System, it is to control the supply of bank reserves and thereby control the supply of bank credit and money, and the Federal Reserve tries to do this in such a way as to maintain a stable economy, that is, to prevent inflation and deflation.

Q. Are there any other financial institutions other than commercial banks to which this process applies that you have described?

A. Well, certainly I think not in the same way. There are other institutions that have some similarities to commercial banks. Commercial banks, in addition to creating demand deposits, also, of course, issue time deposit claims to their customers. These time deposit claims of commercial banks are quite similar to the claims of time deposits of mutual savings banks, and they are also very similar to shares in saving and loan associations.

As a matter of fact, the time deposits creation aspect of commercial banking is somewhat similar to these other savings institutions. However, I think it is generally true that these savings institutions, such as the savings depart-
[fol. 1043] ments of commercial banks, savings and loan associations, mutual savings banks, are not able independently to create money. They rather serve what we might call financial intermediaries. The first thing they have to do is to offer claims that are attractive enough to induce people to place part of their savings in their claims, and then having done that, they can use the funds so reserved to invest in securities or to make loans; but they don't have the power to expand credit. They don't issue demand deposits. They don't have the power, obviously, to expand the money supply in this sense, nor do they, in my judgment, have the power to increase the supply of credit. They can only channel the flow of credit and facilitate the flow of savings into investment, rather than creating additions to the supply of credit.

Q. Professor Smith, you have related the similar function of commercial banks to some of the financial institutions, that is, the acceptance of time deposits. Can you describe the relative size of time deposits to demand deposits in the banking system as a whole?

A. Well, time deposits have been growing relative to demand deposits, and at the present time, if you include time deposits in commercial banks and time deposits in
[fol. 1044] mutual savings banks, time deposits are approximately as large as demand deposits.

Q. With respect to the time deposits held within the commercial banking system, what is the relative size of time to demand deposits?

A. I would have to look that number up.

Mr. Littleton: Do I understand that we are talking about the entire United States?

Mr. Reycraft: Yes.

The Witness: I think time deposits in commercial banks are around 70 per cent of demand deposits, but I would really have to look that figure up to be certain of its size.

By Mr. Reycraft:

Q. All right. Professor Smith, yesterday you referred to at least four unique features of the commercial banking system, and you indicated that the second unique feature was the administration of payment. Will you describe how this feature works.

A. This second unique feature of commercial banking is intimately connected with the first. That is, since commercial banks do create demand deposits, and since demand deposits are the main means by which the bulk of the payments in our economic system are made, this means [fol. 1045] that the commercial banks play a key role as administrators of this payment system.

I might add that the Federal Reserve has a key role in this process through its facilities for collecting checks. That is, we have developed in the course of time a highly efficient system for making, transmitting, payments from one part of the country to another, or even for the making of local payments through the use of checks. Commercial banks have done a superb job in developing a highly efficient system of check collection, and in this process they have been assisted greatly by the development of a very efficient system of check collection by the Federal Reserve System. I think this is one of the important functions that commercial banks perform that can't be performed by any other financial institution, even though such institutions might possibly be similar to commercial banks in some respects.

Q. Does this feature have any application to the cost of transferring capital among the banks in the United States?

A. I think yes. I think it really means that money capital, that is, that the financial resources, the financial wherewithal for obtaining command over, say, capital [fol. 1046] goods, for the purpose of building, say, a plant or industrial equipment in a particular part of the country, that financial wherewithal, that is, the money capital necessary for carrying on business activity, has virtually a zero transport cost from one part of the country to another. That is, it is possible to transport money capital very efficiently, swiftly, and at minimum cost from one part of the country to another, and that payment system has

greatly increased mobility of funds from one part of the country to another.

Q. You also referred yesterday, Professor Smith, to another unique feature of the commercial banking system, which was the nature of its regulation for the protection of depositors. Will you describe the manner in which this occurs.

A. Well, as I started to sketch out yesterday, and as I propose to discuss it at greater length now, it seems to me that banking has unique features in the sense of the nature of the industry, the character, its assets, liabilities, and so on, that has made it necessary for us to develop regulations in the interest of protecting bank depositors. That is, in addition to having regulations that are connected with regulating the money supply, that is, Fed- [fol. 1047] eral Reserve controls over the banking system, it has been necessary for us to have other controls over the banking system for the purpose of protecting bank depositors.

Now, in that connection I think it is well to start by distinguishing two rather unique features of our banking system, unusual at least in the sense that our banking system differs from the banking systems of most other countries in these respects.

Q. Professor Smith, what is the first unusual feature you have referred to?

A. Well, the first unusual feature of our banking system is that we have what might be described and what is frequently described as a unit banking system, that is, we rely not on a single or a small number of large branch banking systems extending throughout the country, but rather we depend on a great number of individual commercial banks in our banking system. As of December 31, 1960, we had nearly 12,500—over 13,000—separate commercial banks in the United States. Now, we have developed in the last few years an extensive system of branch banking, but we do subject branch banking to restrictions with respect to the district within which branch banking can be developed.

[fol. 1048] These limitations on branch banking in the United States differ from state to state, and I have pre-

pared a table that shows the distinctions, which I would like to refer to now.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 53 a table headed "Table I, Commercial Banks and Branches in the United States, December 31, 1960."

(Document headed "Table I, Commercial Banks and Branches in the United States, December 31, 1960" was marked Exhibit G-53 for identification.)

The Witness: As you can see from this table, as of the end of last year we had, to be exact, 13,472 commercial banks. I said approximately 13,500. Of those, 2329 maintained some form of branch arrangements, and these 2329 banks maintained a total of 10,216 branches. Of those only 4000 were in the head office cities of the banks. The remainder were in outside head office cities located either in the head office county, in contiguous counties, or in noncontiguous counties to the head office city.

Now, if you add in all the branches along with the main banking offices, the total number of banking offices in the United States at the end of last year was 23,688. Now, [fol. 1049] branch banking, as I said, is subject to regulation by the states; and the Federal Government, to the extent that it charters banks, has largely brought its branch banking requirements in line with those of the states in which the banks are located.

There are in this country four fairly distinct patterns with respect to branch banking in different states. Some states, for example, the State of Illinois, prohibit branch banking entirely. Other states permit branch banking within the head office county in which the bank is located. There are others, such as this state, which permit branch banking in the head office county and in counties contiguous thereto, and there are a few states, the most notable one being California, in which statewide branch banking is permitted.

Branch banking has developed to a considerable extent in the United States in recent years, and I might add that we have in some parts of the country fairly extensive development of another form of arrangement which brings together groups of banks, namely, group banking, working

through bank holding companies, but I would like to stress that in spite of the fact that we have had some develop-
[fol. 1050] ment of branch banking in the United States and have also developed group banking to some degree, we still fundamentally have what we have always described as a unit banking system, that is, a very large number of independent commercial banks, even though we may permit some of them to have branches and even though we may permit the combination of some of those banks and the joint operation of them through bank holding companies, we still have fundamentally a unit banking system in the United States, and I think this is one of the fundamental features of our banking system.

COLLOQUY BETWEEN COURT AND COUNSEL

Mr. Littleton: If Your Honor please, at this time I am going to object to the relevancy of this type of examination, that question and answer. We are here trying a case located in Philadelphia, Pennsylvania, in the 10-county area around Philadelphia. Mr. Reycraft is apparently covering the whole national scene. I realize he has other cases to try in other parts of the country, but I don't see the relevancy of what happens in California or what the branch banking system in California has to do with a merger case here in Philadelphia, Pennsylvania, in the Delaware Valley area.

I object to this line of examination. We will be here [fol. 1051] here all month talking about all parts of the United States and everything that happens in banks in all parts of the United States.

Mr. Reycraft: Your Honor, so far it seems to me from Professor Smith's testimony that the commercial banking system is a unique system and that the features of commercial banks in any section of the country, including Philadelphia, are derived from the manner in which the commercial banking system operates as a whole; and I might say that in addition to its relevance to show the uniqueness of commercal banks as distinguished from other financial institutions, it is also relevant to show the points which Professor Smith later proposes to make with respect to the specific problem in the Philadelphia area.

Mr. Littleton: You will remember, if Your Honor please, at the outset of this case I raised the question of relevant market, and Mr. Reycraft is insisting that the relevant market that this Court is to consider here is just the 4-county area of Philadelphia, Bucks, Delaware, and Montgomery. We contend it is larger than that. Now he is directing the questions to the whole United States. What has branch banking or the branch banking regulations in California or any other state at a distance to do with the [fol. 1052] merger question that we are here supposed to be trying.

The Court: Well, may I say, Mr. Reycraft, that that has been bothering me considerably. As a matter of fact, it kept me awake a couple of hours last night as to the relevancy of this testimony here.

Mr. Reycraft: Well, Your Honor, it seems to me the unique function which commercial banks perform can only be understood in relation to the commercial banking system as a whole. In other words, the way commercial banks in Philadelphia operate is really governed by the regulations of the Federal Reserve or by the Comptroller's office, as Your Honor knows, and by the Federal Deposit Insurance Corporation, so that beginning from the way in which these regulations apply overall, we could say just as well that we could use the word "Philadelphia National" and "Girard" to describe how they are governed by the Federal Reserve Board, but we must refer to the Federal Reserve Board and to the FDIC, which do regulate these banks.

Now, these are national regulatory authorities, and there isn't any purpose or really any basis to distinguish the manner in which they regulate the Philadelphia National Bank and the Girard Trust Company from banks [fol. 1053] overall, so this is part of our point to show that commercial banks are unique and the reasons why they are unique; and the money creation and credit creation function of commercial banks is perhaps one of the most outstanding features of the commercial banking system. So this money creation system, as I believe Professor Smith has explained, can only be understood in relation to the transfer payments among commercial banks in the United States as a whole, so that a single bank, for example, in the Phila-

delphia area would not, as I understand it, be able to accomplish this function. It is only by the transfer of payments among banks and throughout the system that the working of a commercial bank in any area of the country can be properly understood.

Mr. Littleton: If Your Honor please, I haven't the slightest objection to Mr. Reycraft developing the many, many regulations and controls under which banks situated in this area operate. In addition to these federal controls he is talking about, of course, there are state controls, there are state laws, there are state regulations. So far as that is concerned, he can demonstrate that, so far as we are concerned, in Pennsylvania, but what has California's law with respect to branch banking *to branch banking* got to [fol. 1054] do with this case? I am perfectly happy to have him develop all the regulations and laws and controls which affect banks operating in the Delaware Valley area, in the greater Philadelphia area.

Mr. Reycraft: California's regulations are a mere footnote to this testimony, and I submit that it is merely by way of illustrating the variety of commercial banks which are comprehended within the overall system which applies to these two Philadelphia banks.

Mr. Littleton: There could be 49 other systems in every other state. We are interested in this.

The Court: It appears to me from your offer of proof yesterday that we are going to get a course in the American history of banking, and drawing from that, we are going to get the theory of money control, the theory of regulations, and end up with an opinion. Is that generally what you are going to do?

Mr. Reycraft: Well, no, sir, it is certainly not our purpose to offer a history of commercial banking, but we do think it is appropriate to go into the regulatory functions of this Federal Reserve Board and the FDIC.

The Court: I agree with you. There is no problem about [fol. 1055] that at all, but we are, it seems to me, proceeding on a broad sweeping scope that isn't warranted by the facts of this case. However, I don't intend to tell you how to try your case or to limit you except where I feel it is in the interests of justice. You go ahead. I will overrule the objection as stated, and you go ahead, but I am just

interested in not going into every possible facet of the banking business that has an application to this case.

Mr. Reycraft: I will be guided by Your Honor's wishes.

[fol. 1056] By Mr. Reycraft:

Q. Prof. Smith, can you refer to the manner in which the Federal Reserve Board and the other regulatory provisions which apply to banks in this area, as well as in other areas of the United States, come into effect?

A. Well, I think, if I might, it would be helpful in getting at the core of this, without going into greater detail about it, if we would look at—I have prepared a balance sheet for all commercial banks in the United States, the purpose of which I could just as well have used the balance of a single bank, but the purpose of this is to illustrate some peculiarities of commercial banking. They can be illustrated, I think, well, from this tabulation showing the assets and liabilities of all commercial banks in the United States.

The relevance, I think, is to show the need for public regulation of banking in certain connections.

Q. Is that Table IIa?

A. That's right.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 54 a document headed "Table IIa" entitled "Consolidated Balance Sheet all Commercial Banks in the United States December 31, 1960."

(Document headed "Table IIa," entitled "Consolidated [fol. 1057] Balance Sheet all Commercial Banks in the United States December 31, 1960," was marked Exhibit G-54 for identification.)

By Mr. Reycraft:

Q. Now, Prof. Smith, I understand that Government's Exhibit IIa could apply equally well to any single bank, but that you have adopted a balance sheet on the basis of banks as a whole in order to achieve a uniform or average model rather than one that might be distorted with respect to this individual area?

The Court: Suppose you amend that to G-54 instead of Government's Exhibit IIa.

Mr. Reycraft: Yes, sir.

Mr. Littleton: Would you wait until we have a chance to look at it?

By Mr. Reycraft:

Q. Prof. Smith,——

Mr. Littleton: Wait just a moment, if you will.

Mr. Reycraft: I am sorry.

Mr. Littleton: If Your Honor please, I think the balance sheet which would be really of interest and pertinency here and relevancy would be the balance sheets of the two applying banks and the resulting bank.

I don't know what a consolidated balance sheet of all [fol. 1058] commercial banks in the United States is going to contribute to this session.

Mr. Reycraft: We would be happy to have that also, Mr. Littleton.

Do you have it?

Mr. Littleton: You put it in evidence.

Mr. Reycraft: Do you have Government's Exhibit 36?

The Court: Government's Exhibit what?

Mr. Littleton: 36.

By Mr. Reycraft:

Q. You may refer to both Government's Exhibit 36 and Government's Exhibit 54.

A. I might say that the point that I am driving at here is related to a question that came up yesterday in connection with the cross-examination of one of the witnesses.

It was mentioned, it was suggested, it seems to me, at that time——

By Mr. Littleton:

Q. What is the question to which you are addressing your answer, please?

A. I am sorry.

Mr. Reycraft: I had asked Prof. Smith earlier if you would describe the manner in which the regulation of [fol. 1059] the commercial-banking system works; and you indicated that you wished to do so with reference to Gov-

ernment's Exhibit 54 to explain how the balance sheets of commercial banks as a general rule are set up.

Now will you continue your explanation?

Mr. Littleton: I move that what the witness has just said prior to this be stricken as not being responsive to that question.

The Court: It may be.

By Mr. Reycraft:

Q. Prof. Smith, will you continue with your explanation without reference to that testimony?

A. Would the clerk please read the question?

(The reporter repeated the proceedings as follows:

"I had asked Prof. Smith earlier if you would describe the manner in which the regulation of the commercial-banking system works; and you indicated that you wished to do so with reference to Government's Exhibit 54 to explain how the balance sheets of commercial banks as a general rule are set up.")

The Witness: Yes.

I think commercial banking has some peculiarities with [fol. 1960] respect to the asset and liability structure of commercial banks as compared with other types of business enterprise that makes it necessary and has in our history made it necessary for us to develop peculiar types of regulations in commercial banking that we don't have in other kinds of industries.

Now referring to the Table IIa, there are several things about commercial banks——

By Mr. Littleton:

Q. Referring to what?

A. Referring to Table II——

By Mr. Reycraft:

Q. Which is Government's Exhibit No. 54?

A. Government's Exhibit No. 54. This balance sheet of commercial banks brings out, I think, several interesting features of commercial banking which are equally well

brought out by reference to the balance sheets of the charter bank, the merging bank, and the resulting bank here in Philadelphia.

In the first place, if we look at the liability side of a commercial-bank balance sheet we find that the major liability of commercial banks consists of deposits. For the banking system as a whole, total deposits, including both demand deposits and time deposits, as of December 31, 1960, amounted to about $230,000,000,000 out of total assets of [fol. 1061] about 258.

In the Philadelphia situation you can see that the total liabilities and capital accounts of the charter bank amounted to a little over $1,000,000,000, about 1.1; and their total deposits were about slightly over $900,000,000. That is, deposits are predominantly the liabilities—the predominant liability of commercial banks. The other liabilities——

The Court: Just a minute.

Read that answer back. I would like to see it on G-36.

(The last answer was repeated by the reporter.)

By Mr. Reycraft:

Q. Referring to Government's Exhibit 36, Prof. Smith,——

The Court: All right. I follow it now.

He lost me there, and I wanted to catch up.

By Mr. Reycraft:

Q. Will you indicate the relative proportion of time and demand deposits?

A. Well, I just might refer, before I do that, to the fact that for the merging bank similarly deposit liabilities are about $651,000,000 out of total liabilities and capital accounts of $741,000,000. Again, deposit liabilities are the predominant type of liabilities.

[fol. 1062] Mr. Littleton: Would you read that back? I couldn't hear that.

The Witness: Deposit liabilities are the predominant type of liabilities for commercial banks.

By Mr. Littleton:

Q. Are we talking about G-54?

A. G-36.

Q. I thought the question was G-36.

Mr. Reveraft: That is what he has.

The Witness: G-36.

Mr. Littleton: All right.

The Witness: Well, now, these liabilities break down into demand deposits and time deposits.

I was somewhat off a while back when I mentioned, when I was asked about the ratio of time deposits to total deposits. Time deposits represent roughly a third of total deposits and demand deposits two thirds of total deposits for the commercial banking systems as a whole.

In the Philadelphia area, for these two banks, the time deposits, time and savings-deposit liabilities, are somewhat smaller relative to demand deposits than is true for the country as a whole, as can be seen from the Government's Exhibit 36.

[fol. 1063] So that the major liability of a commercial bank is its deposits. The other liabilities are relatively small in amount. Other liabilities, such as indebtedness to other banks, indebtedness to Federal Reserve and so on, amount to only about $6.8 billion for the banking system; and other liabilities in these Philadelphia banks are also a relatively small sum.

The main other item on the liability side of the balance sheet is capital accounts which, for the banking system as a whole, amounted to $21,000,000,000; and in the case of the Philadelphia banks, for the charter bank total capital accounts amounted to $93.3 million and for the merging bank, $74.1 million.

Now——

By Mr. Littleton:

Q. May I ask at that point, therefore, G-36 shows figures which do not reflect the same proportions that your G-54 does?

A. That's quite right.

Mr. Littleton: This just points up, if Your Honor please, and fortifies my objection against national figures and

national regulations and national controls being brought in here because of the difference, relatively, between, we will say, time deposits and demand deposits of all the commercial banks throughout the United States and those [fol. 1064] here in Philadelphia.

Mr. Reycraft: I think again it is an obvious fact that the function and the place of the commercial banks in Philadelphia——

The Court: I am waiting for him to get to the meat of the question. He is making comparisons here, but I am waiting for him to give an answer to your question.

That is what I am interested in, regardless of the statistics and the differences between them.

Mr. Reycraft: Would you read back the question?

The Court: He started to tell us about regulations and how and why. He hasn't gotten to that yet.

Suppose you tell us how they are regulated.

By Mr. Reycraft:

Q. Prof. Smith, who regulates commercial banks in Philadelphia?

A. Well, Philadelphia has both member banks of the Federal Reserve System and non-member insured commercial banks.

Q. Who regulates the member banks?

A. The Federal Reserve authorities and the state regulatory authorities regulate commercial banks that are members of the Federal Reserve system. The regulatory responsibilities are divided between the Federal Reserve and the state authorities.

[fol. 1065] Whereas for banks that are not members of the Federal Reserve System, that is, state, non-member banks, that are insured, the regulation is divided between the state authorities and the Federal Deposit Insurance Corporation.

Q. Who insures banks?

A. Well, the commercial banks in the United States, of which about 97 per cent are insured—the insured banks carry about 99 per cent of the deposits—I believe all the banks in the Philadelphia area are insured banks.

That insurance is provided by the Federal Deposit Insurance Corporation.

Q. And why, in your opinion, was it thought necessary to have insurance for depositors in banks?

A. Well, it relates to the points I was bringing out here in connection with the balance sheet.

Commercial banking is unusually subject to two peculiar types of problem that are present to some degree in all businesses, but are peculiarly acute in connection with banking, namely, the twin dangers of a bank being insufficiently liquid and of a bank, perhaps, being insolvent.

Q. Why is it necessary to have protection with respect to the liquidity of a bank in Philadelphia, as well as in [fol. 1066] other areas?

A. Well, that relates to the point that I was making about the liabilities of commercial banks, being almost entirely deposits. That is, a bank has a great many deposits and only a very small amount of capital.

Those deposits, demand deposits, are redeemable on demand and in practice many time deposits, while in some cases it is legally possible to defer payment on time deposits, in practice many time deposits are treated as redeemable on demand; and for that reason a commercial bank must have a high degree of liquidity in order to be able to meet the drains that are placed upon it by the possibility of the customers coming in, cashing checks, and drawing money directly out of the bank, or writing checks that fall in the hands of other commercial banks and are collected against the banks in which the depositor has his account through our clearing machinery, through the Federal Reserve, or through correspondent banks.

For that reason, commercial banks have to maintain a very high degree of liquidity and this, too, is reflected in the balance sheet on the asset side.

For all commercial banks in the United States you will notice that those commercial banks as of the end of last year carried $67,000,000,000 of United States Government [fol. 1067] securities and $52,000,000,000 of cash assets in the form of cash in the vault, deposits with correspondent banks, deposits at the District Federal Reserve Banks, and checks-cash items in process of collection.

The total amount of those two items together comes to $119.4 billion or about 46 per cent of the total assets of all commercial banks are in the form of liquid assets.

Now, we find, if we look at the balance sheets of the Philadelphia banks, we find a similar situation. Out of total assets of $1,000,000,000, slightly over $1,000,000,000, the charter bank at the end of last year had $169.3 million of United States Government obligations, direct and fully guaranteed, and the cash and due from banks of $266,000,000 approximately out of total assets of a little over a billion. That is, it had about the same proportion as the national average, a little over 40 per cent of its assets, in the form of cash and Government securities.

The merging bank had $147.7 million in cash and $142.1 — in Government securities, or a total of about $280,000,000, a little over $280,000,000, out of total assets of 740; again about 40 per cent of its assets were in the form of Government securities and cash.

Now, one of the reasons we have imposed on commercial [fol. 1068] banks reserve requirements in addition to the function of helping the Federal Reserve System to control credit, another partial reason for this is to help insure the liquidity of the banking system.

Q. Pardon me. Why is it necessary to insure the liquidity of the banking system?

A. Why, for the reason that most of their liabilities are deposits; and those liabilities can be cashed in on demand and the bank has to be prepared to meet drains either through the cashing of checks or through the clearing of checks through the clearing machinery. In order to be prepared to meet sudden unexpected drains, it is necessary for the bank to have a lot of cash in hand or deposits in the bank or liquid assets that it can sell readily in the market to obtain the funds to meet those requirements.

Q. Does this necessity to maintain liquidity affect the type of business which a commercial bank can do?

A. Well, it certainly tends to channel the energies of commercial banks in the direction of short-term financing, particularly the financing of business enterprise, through the making of commercial loans.

I think the liquidity requirements tend to channel the energy of the commercial bank into making short-term commercial loans.

[fol. 1069] Would it be possible for a bank to be liquid and not solvent?

A. That is quite possible. A bank might fail, for example, because of ill liquidity; it would have to be closed down because it couldn't get cash.

However, another possible cause of difficulties in a commercial bank would be that the bank might be insolvent, and that problem of insolvency in the commercial-banking system is related particularly to the point I started out to make, namely, the small amount of capital accounts in commercial banks. Commercial banks are distinct from most other types of business enterprise in the sense that their capital accounts are very much smaller relative to their total assets and other liabilities than is true for other business enterprises.

As you can see, for the United States as a whole, total capital accounts amounted to $21,000,000,000, which works out to be about 8.2 per cent of the total assets of those banks of 257.6.

It is similarly true here in Philadelphia that the total capital accounts for the charter bank were $93.3 million on June 30, 1960, or about 9 per cent of their total assets of a little over $1,000,000,000.

For the merging bank the capital accounts were $74,-[fol. 1070] 000,000, approximately, out of total assets of $740,000,000, about a 10-per-cent ratio.

Each of thes banks has a capital ratio slightly higher than the national average, but my point is that the capital ratios of banks in general are low relative to capital rates in most other business.

That means that if banks make loans or investments that turn out to be unsound—perhaps the customer to whom the bank has made a loan has a business failure and he is unable to repay the loan—this kind of development can occur only to a very limited degree without wiping out the capital accounts of a commercial bank, that is, for the banking system of the country as a whole only about a 10-per-cent decline in the value of the assets of the banking system, that is, losses on loans amounting to 10 per cent of the total assets of the banking system would have wiped out the capital accounts of the whole system; or for the typical commercial bank around an 8- to 10-per-cent reduction in the value of its assets through loan losses would wipe out the stockholders and render the bank insolvent, and the

regulatory authorities would find it necessary to close the bank.

Now that capital cushion which provides protection to the depositors in a commercial bank is much smaller [fol. 1071] than it is in most other types of business enterprise, and I think this is another reason why it has been found necessary to regulate commercial banks—to protect depositors against loss, that is, to protect depositors and to protect banks.

To summarize, it is two types of diffculty—one, the difficulty of becoming ill-liquid because they have insufficient liquid assets to meet the drains resulting from the outflow of deposits and to provide a sufficient amount of capital; and other regulations to protect depositors against insolvency, that problem being particularly acute in the commercial-banking system because of the relatively low capital rate.

Q. Now, Prof. Smith, you have indicated the various types of regulation which are involved in the commercial-banking system as they apply to Philadelphia as well as to the rest of the country.

Does this mean that the commercial-banking system is like a public utility, that its rates are regulated?

A. No. Commercial banks are regulated, to summarize what I have been saying, for two reasons fundamentally.

One is that they create money and we have to control the supply of money in the country.

[fol. 1072] The second reason is that the structure and type of operations that commercial banks engage in tend to make them particularly vulnerable to the possibility of failures resulting either from ill-liquidity or from insolvency; and it has been necessary to develop regulations to protect depositors in this respect, those regulations taking the form of things like the loan limit—preventing the bank from lending more than 10 per cent of its capital and surplus to one customer; regulations on the type of assets that commercial banks can invest in.

For instance, commercial banks, except for very unusual circumstances, are not permitted to invest any money in corporate stocks and their investments in corporate bonds are restricted to the highest grades of corporate bonds; and there are many other restrictions on the lending and in-

vesting activities of commercial banks that are designed to insure that the banks don't take too much risk and to protect the depositor against loss.

Now, this is a quite different type of regulation from the type that applies to public utilities, that is, an electric-power company or a railroad company, where the nature of this business is such that we accept the inevitability of monopoly.

We simply, in the public-utility field, have decided that [fol. 1073] it is simply impossible to have competition in the field of providing electric-power services or telephone services and so on to the public. We have accepted monopoly. We have given up on the idea of letting the market determine prices and protect the consumer against the effects of monopoly. Instead of that, we have introduced Government-directed regulation over prices and profit rates and so on for the purpose of protecting the public.

In other fields we rely on the market, the competitive market, as the means of preventing business enterprises from overcharging and protecting the consumer, insuring good service, and so on.

This is true in the banking field. We have not, in spite of the fact that banks are regulated—we have not viewed banking as a public-utility area in which we accept the inevitability of monopoly, but rather we have decided to rely on competition and we have tried to promote that competition by sticking to the idea of a unit-banking system with a very large number of commercial banks.

Q. What are some of the forms of competition which are preserved despite this regulation?

A. Well, commercial banks compete for the custom of their customers through charges on loans and through providing services—competition in the form of improved serv- [fol. 1074] ices to their customers.

They compete also for deposits.

Q. Prof. Smith, you referred to a unique feature of commercial banking which you described as lending and investment opportunities. Will you describe how that feature is unique in commercial banking.

A. Well, as I said when I began yesterday, it seemed to me that the lending and investing activities of commercial

banks can be viewed as unique among financial institutions in several different ways, in two different ways.

First, commercial banks operate in a much wider variety of market than do other financial institutions. As I said, they are sometimes referred to as the department stores of finance. They engage in most types of lending and investing activities, while at the same time they do tend to specialize. They tend to specialize particularly in the area of making commercial loans to business enterprises.

I have prepared a table here showing loans and investments of all commercial banks, which I think is relevant.

Mr. Reycraft: Will you mark Table III as Government's Exhibit No. 55 for identification, please, headed "Loans and Investments of all Commercial Banks December [fol. 1075] 31, 1960."

(Document headed "Table III," entitled "Loans and Investments of all Commercial Banks December 31, 1960," was marked Exhibit G-55 for identification.)

By Mr. Reycraft:

Q. Prof. Smith,——

Mr. Littleton: Do you mind waiting a moment?

Again, if Your Honor please, without going into the detail of it, I object to this because it covers the whole United States and I think the much more pertinent think would be a reference to, I believe, Exhibit G-6, which shows the situation with the defendant banks.

The Court: I will overrule the objection. Let's get along.

By Mr. Reycraft:

Q. Will you continue to explain, Prof. Smith, the manner in which the loan and investment activities of commercial banks, including the two banks who are defendants in this case affect the unique characteristics of the commercial-banking system?

A. Well, one point I intended to make with this table is the fact that commercial banks, as you can see, operated in very many markets. They make commercial loans, agriculture loans, loans for the purchasing and carrying

[fol. 1076] of securities, loans to other financial institutions.

They make mortgage—real-estate mortgage loans, other loans to individuals, which consist largely of consumer credit, including consumer installment loans; and then other loans to banks, which are a relatively small amount.

At the same time they invest very substantial amounts in United States Government securities, and also in other securities. Other investments and securities by all commercial banks were 20.9 per cent, or about a little over 10 per cent of their total assets.

However, in spite of the fact that they operate in this wide variety of markets, commercial banks do tend to emphasize certain areas. As you can readily see, the largest elements in their loan and investment policy are, in the first place, commercial loans. Commercial loans are better than a third of their total loans, or about $43.1 billion at the end of last year.

Real-estate loans are another large item, amounting to about $29,000,000,000; and other loans to individuals (that is, consumer loans) amount to 26.4.

To summarize briefly the areas in which commercial banks tend particularly to concentrate, I think you can see that those areas are commercial loans, that is, [fol. 1077] securities, loans to other financial institutions.

They make mortgage—real-estate mortgage loans, other loans to individuals, which consist largely of consumer credit, including consumer installment loans; and then other loans to banks, which are a relatively small amount.

At the same time they invest very substantial amounts in United States Government securities, and also in other securities. Other investments and securities by all commercial banks were 20.9 per cent, or about a little over 10 per cent of their total assets.

However, in spite of the fact that they operate in this wide variety of markets, commercial banks do tend to emphasize certain areas. As you can readily see, the largest elements in their loan and investment policy are, in the first place, commercial loans. Commercial loans are better than a third of their total loans, or about $43.1 billion at the end of last year.

Real-estate loans are another large item, amounting to about $29,000,000,000; and other loans to individuals (that is, consumer loans) amount to 26.4.

To summarize briefly the areas in which commercial banks tend particularly to concentrate, I think you can see that those areas are commercial loans, that is, loans to [fol. 1078] business of various kinds; real-estate mortgage loans, consumer credit, and finally state and local government securities.

Commercial banks, of all the institutions, are the largest institutions in the country in terms of their concentration of investment in state and local government obligations. The reason for that is simply that the commercial banks are one of the very few major financial institutions that are subject to the 52-per-cent corporate income tax, which puts them in a sufficiently high tax bracket so it is beneficial for them to invest in tax-exempt state and local government securities. So they are the largest investors in this area other than individual investors.

Now looking at the balance sheets, the loan and deposit accounts of the charter bank and merging bank, Government Exhibit 37, we find, I think, a somewhat similar concentration.

There total loans and discounts of the charter bank were $523.6 million; commercial and industrial loans amounted to $307,000,000, approximately, out of that. In other words, the local bank, the charter bank, concentrates in making commercial and industrial loans to a somewhat greater degree than does the typical bank in the United States. It may develop ⅗ or almost ⅗ of its total loans and discounts were [fol. 1079] commercial and industrial loans.

The merging——

By Mr. Littleton:

Q. May I interrupt and ask you what you mean by a typical bank in the United States? Do you mean your average?

A. That's right.

Q. That is not a typical bank, is it, Professor?

A. Well, it certainly could be defined as one.

Q. It is the average you made up for all commercial banks of all the states in the Union?

A. All right. I will restate the answer.

The charter bank went in for commercial and industrial

loans to a somewhat greater degree than is shown in the consolidated average for the banking system as a whole.

Similarly, the merging bank had about $200,000,000 of commercial and industrial loans out of total loans and discounts net of $399,000,000; or its commercial and industrial loans were about 50 per cent of its total loans and discounts.

Again, the merging bank has commercial and industrial loans to an amount somewhat larger than the national average as computed by taking the consolidated balance sheets of all commercial banks in the United States.

[fol. 1080] The other areas that I suggested in which commercial banks tend to concentrate one is mortgage loans, and here we find loans let's see mortgage loans for the banking system, for the consolidated balance sheet of all commercial banks, amounted to about 14 per cent of the total.

For the charter bank, real-estate loans amounted to $62,000,000 out of $523,000,000, which is not very far from the average shown for the balance sheet of all commercial banks.

For the merging bank, the total was $32,000,000 out of $399, a somewhat lower percentage than is shown in the balance sheet of all commercial banks.

The third major-loan category that I mentioned is the other loans to individuals, that is, consumers; and here we find, taking account of single-payment loans, individuals, installment loans on automobiles, installment loans on consumer goods, FHA Title I loans, and other installment loans, total loans to individuals amounted to $92,000,000 out of 523, a little under 20 per cent. Again, the charter bank went in for loans to individuals to a somewhat lesser extent than is shown in the loans and investments for all commercial banks.

The merging bank, its single-payment loans $71,000,000; its total installment loans, $50,000,000; making $121,000,000; [fol. 1081] It had installment loans of approximately 30 per cent of its total loans and discounts, a somewhat higher ratio than you find for all commercial banks.

By the Court:

Q. Do you call a single-payment loan an installment loan?

A. No. The other loans to individuals category in G-55 for the banking system includes both single-payment loans to individuals and installment loans. It's all personal loans.

For that reason, in referring to Government Exhibit 37 I added in installment loans together with single-payment loans to individuals because that's the way the classification runs in the national total.

By Mr. Reycraft:

Q. Prof. Smith, how do these investment and lending activities distinguish from those in which other financial institutions engage?

A. Well, there are a number of other important financial institutions in the United States that compete to some extent with commercial banks, but it seems to me that the competition is, in the case of most of these types of institutions,——

Mr. Littleton: I didn't hear that, sir.

The Witness: The competition in the case of most of [Tol. 1082] these types of institutions, I think, is somewhat restricted to certain specified areas because the other major types of financial institutions in the United States tend to specialize in certain particular areas, for the most part areas in which commercial banks are much less inclined to specialize on.

I have prepared a balance sheet, again for the United States as a whole, for some of our major types of financial institutions for the purpose of trying to show what some of the differences are between these institutions and commercial banks.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 56 "Table IIIa," with the heading "Assets of Savings and Loan Associations in the United States December 31, 1959."

(Document headed "Table IIIa," entitled, "Assets of Savings and Loan Associations in the United States De-

cember 31, 1959," was marked Exhibit G-56 for identification.)

The Court: We will take a ten-minute recess at this point.

[fol. 1083] Mr. Littleton: If Your Honor please, before Mr. Reycraft interrogates the witness on G-56, may I ask the witness whether or not he has made a similar study of savings and loan associations in the Philadelphia area? The reason for my inquiring is that he introduced this by saying that savings and loan associations vary in various areas of the United States, some areas are characterized one way and some are characterized the other, yet G-56 throws them all together.

By Mr. Littleton:

Q. Is that correct?

A. That is right.

Q. Have you made any special study as to those in the Philadelphia area?

A. Only to the extent of the material presented in the application of the charter bank and the merging bank.

Q. You haven't done any independent study of that yourself?

A. That is right, I have not had time to do so.

Mr. Littleton: I will formally object to anything about G-56, because it throws all savings and loan associations in the United States together, although he has said they differ in different parts of the country.

[fol. 1084] Mr. Reycraft: All I make the same point that Professor Smith is going to compare the situation by reference to the average throughout the country.

The Court: Proceed. Let's get along. I still caution you as I did before. Let us get on those facets which are indiginous to Philadelphia. That is what we need.

By Mr. Reycraft:

Q. Professor Smith, referring to Government's Exhibit No. 56, will you indicate the manner in which the lending and investment activities of savings and loans generally differ from commercial banks.

A. Well, as you can see from this exhibit, which shows the breakdown of the assets structure of savings and loan associations, the main point about this is that savings and loan associations specialize almost entirely in making mortgage loans. In fact, they are legally restricted with respect to the types of other loans they can make. About the only other type of loan that savings and loan associations can make is loans collateraled by share accounts with their depositors, and they can also invest in Government securities. They carry cash, Government securities, mortgage loans, and a small amount of other assets, and their mort-
[fol. 1085] gage loans amounted to about 84 per cent of their total assets. This is as of the end of 1959.

With respect to savings and loan associations in the 4-county area here, as shown on Exhibit B attached to the merger application, on Page 92——.

Q. Will you indicate how the local figures compare to those in Exhibit No. 56.

Mr. Littleton: Excuse me just a minute.

Your Honor, I don't think the application has been identified.

Mr. Reycraft: I have no objection to identifying it, although I have doubts about the reliability of some of the statements in it.

The Court: Read that back, that comment.

(The reporter read as follows:)

"Mr. Reycraft: I have no objection to identifying it, although I have doubts about the reliability of some of the statements in it."

Mr. Littleton: Maybe the witness better not testify from it, then.

Mr. Reycraft: We have no doubt as to these statistics.

Mr. Littleton: You have checked it?

Mr. Reycraft: No, indeed. We are relying on the state-
[fol. 1086] ment of Mr. Brown and Mr. Potts as to the statistics.

Mr. Littleton: Although you doubt the reliability of it?

Mr. Reycraft: No, sir, I don't doubt the statistics, as I have indicated earlier.

Will you mark it as Government's Exhibit No. 57.

(Merger application was marked Exhibit G-57 for identification.)

The Court: I have been waiting for that. I thought that would be Exhibit No. 1, Mr. Reycraft.

Mr. Reycraft: This is the prior application.

By Mr. Reycraft:

Q. Referring to Exhibit No. 57, Professor Smith, will you indicate how the figures for the four-county area compare to the average figures you already described.

A. Well, I can't make exactly the same comparison because this table does not give the total assets of savings and building and loan associations in the four-county area. It gives total mortgage investments and it gives the savings accounts of these institutions and the savings accounts of savings and loan associations constitute the great majority [fol. 1087] of their liabilities. They are something like commercial banks in this respect: They get most of their funds by investment of individuals in the shares of the association so that their shares, that is, the total headed I.P.C. savings here, will, I am sure, turn out to be approximately the same, almost as large as the total assets and liabilities of the associations.

As you can see, the mortgage investments, as a matter of fact, are larger than the other savings accounts, and I am sure that you would find, as in the case of the national associations, that mortgage investments constitute almost their entire portfolio apart from cash assets and Government securities. In other words, the point I am making is that savings and loan associations in Philadelphia as well as elsewhere are highly specialized financial institutions that invest most of their funds in the mortgage field. This is true here as well as elsewhere. Although there may be differences in respect to state regulation of savings and loan associations, I don't think they have much bearing on what we are talking about here. So savings and loan associations, my point is, are highly specialized institutions in the mortgage field. They do compete with com- [fol. 1088] mercial banks to some extent in this field because commercial banks are one of the major lenders.

By the Court:

Q. What do the figures show with respect to total investments and mortgages in the four-county area.

A. I don't have that figure, sir.

By Mr. Reycraft:

Q. Professor Smith, referring to mutual banks, mutual savings banks, will you explain the distinction between mutual savings banks and commercial banks resulting from their lending and investment activities?

A. Well, mutual savings banks, in general, are institutions that we find in only a few parts of the country, largely in the Northeast—Massachusetts, New York—and Pennsylvania happens to be one of the states. We find several large mutual savings banks in the Philadelphia area. I don't have detailed figures on the asset portfolios of Philadelphia mutual savings banks. I do have detailed figures, reasonably detailed figures here, in Table IIIb of the assets of mutual savings banks nationally, and I have some information here on Page 92 of the merger application for the Philadelphia area.

Mr. Reycraft: Will you mark for identification as Gov-
[fol. 1089] ernment's Exhibit No. 58, Table IIIb, headed "Assets of Mutual Savings Banks in the United States, December 31, 1959."

(Document headed "Table IIIb, Assets of Mutual Savings Banks in the United States, December 31, 1959" was marked Exhibit G-58 for identification.)

Mr. Littleton: For the record, if Your Honor please, I will object to this also because it is national, particularly when the witness has said that they do not exist nationally the way they do in the East.

The Court: The same ruling.

The Witness: Looking at Table IIIb we find that mutual savings banks are a little more complex institution than savings and loan associations.

By Mr. Reycraft:

Q. Referring to Government's Exhibit 58, Professor Smith, will you indicate the distinctions between commercial

banks and mutual savings banks in their investment and lending activities.

A. Mutual savings banks, as I say, are slightly more complex investing institutions, in general, than savings and loan associations, but again they also tend to concentrate rather heavily, not quite as heavily as savings and loan associations, but rather heavily in the mortgage field.

[fol. 1090] As you can see from Government's Exhibit 58, nationally mortgage loans constitute about two-thirds of the total assets of all mutual savings banks. The other major assets were Government securities, 6.7 billion, or 17.6 per cent of their total assets, and corporate and other securities, 4.8 billion, or about 12.4 per cent. They do invest, unlike mutual savings and loan associations, to some extent in corporate securities and in the securities of state or local governments.

In the local area, the merger application, on Page 92, gives only the mortgages, the reason being, I assume, that mortgages are felt to be the major asset and major type of investment that mutual savings banks make, and we can see for the Philadelphia area, again mutual savings banks—we don't have the total assets figure but we do have the total amount of savings accounts, which amounted to about 1.8 billion, and total mortgages amounted to about 871 million dollars. Mortgages, in other words, constitute half of the assets of mutual savings banks in the local area. These institutions are specialized institutions, and particularly they don't compete very much with commercial banks in the making of commercial and industrial loans. They specialize largely in the holding of mortgage loans and to some extent in the holding of corporate and state [fol. 1091] and local securities.

Q. Directing your attention, Professor Smith, to life insurance companies, will you explain whether there is a distinction between life insurance companies and commercial banks with respect to their investment and lending activities.

A. I have again prepared nationally the assets of life insurance companies in the United States in this next table.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 59 Table IIIc, headed "Assets of

Life Insurance Companies in the United States, December 31, 1959."

(Document headed "Table IIIc, Assets of Life Insurance Companies in the United States" was marked Exhibit G-59 for identification.)

By Mr. Littleton:

Q. On G-58, Professor, you say your source is the Federal Reserve Bulletin. Do you have the number of that Federal Reserve Bulletin?

A. Yes. It was April, 1961.

Q. April, 1961?

A. Right.

By Mr. Price:

Q. The same one that was the source of the other data [fol. 1092] which appears in the previous exhibits?

A. Some of it, that is right.

By Mr. Reycraft:

Q. Referring to Government's Exhibit No. 59, Professor Smith, answer the question which I previously directed to you.

A. Yes. Again with respect to insurance companies, Exhibit 59 shows the total asset breakdown of all life insurance companies in the United States. This shows that they are very important institutional investors, having total assets at the end of 1959 of 113.6 billion dollars. The two major areas in which they invest are in corporate securities and in mortgages. Their investments in corporate bonds amounted to 45.3 billion, or about 40 per cent of their total investment. Their investments in corporate stocks, 4.6 billion dollars, or about four per cent of their total investment, and their investment in mortgages, 39.2 billion, or 34.5 per cent of their total loans and investments. In other words, their investments in corporate securities and in mortgages amounted to about 75 per cent, about three-quarters of their total investments.

Again the mortgage field is an area in which insurance companies compete with commercial banks, with savings

[fol. 1093] and loan associations, and with mutual savings banks. I might say that these four investor groups are the major investors in mortgage loans. This is the main area where life insurance companies compete with commercial banks, in this mortgage market, which is a relatively competitive type of investment market. They are not important in most of the other areas where commercial banks tend to concentrate.

Q. Professor Smith, would you agree with the statement on Page 95 of the application that it is probable that actual competition by insurance companies is not significant? That appears toward the end of Paragraph A on Page 95.

A. I would think that statement is true.

Q. Would it also be your judgment that long-term borrowings, as the application states, have tended to gravitate toward the insurance companies while commercial banks are more active in the field of short-term loans?

A. I think that is right. For one thing, as the national table indicates, life insurance companies tend to concentrate in investments in corporate bonds, and to the extent that they engage in lending activity, they tend to engage in term lending type of activity to a greater relative degree than commercial banks do, and their activities in this area are not very large anyway.

[fol. 1094] Q. Professor Smith, have you given any attention to the differences, if any, between the lending and investment activities of finance companies as compared to commercial banks?

A. Yes. There are several different kinds of finance companies that one can distinguish, and these institutions have become relatively important in our financial markets in recent years. We can distinguish what we usually call sales finance companies, which are largely important——

Mr. Littleton: May I break in just a moment? On G-59, before you leave G-59, have you prepared any table to show how much business the insurance companies we are talking about have done in the Philadelphia area?

The Witness: No, I have not.

By Mr. Reycraft:

Q. Will you continue with respect to finance companies.

A. Yes. I think we can distinguish several different types

of finance companies. The first one is sales finance companies, which concentrate rather heavily in the field of consumer installment credit. These institutions constitute a fairly complex credit system. There are several thousand sales finance companies in the United States. I might say that one difficulty in this field is that the statistics are not readily available, at least on a current basis. There is [fol. 1095] a good deal of information on sales finance companies several years back in the Federal Reserve study of consumer installment credit, but current statistics in this area are not very satisfactory.

There are several thousand sales finance companies, ranging from very large companies, such as General Motors Acceptance Corporation, which operate numerous offices all over the country, down through companies that operate on a regional basis, and to small companies that operate in local areas. These institutions focus most of their activity in the financing of consumer installment credit, and I might say that they obtain their funds in a different way. That is, they don't tap the savings of individuals directly, but they tend to raise their funds in the capital market through basically three major sources.

In the first place, these sales finance companies have lines of credit with commercial banks. Some of the large ones have lines of credit with several hundred commercial banks scattered all over the country. The smaller ones have lines of credit with commercial banks concentrated in smaller areas, and I believe the smaller finance companies located in local areas have lines of credit with local commercial banks. So they raise a good deal of their funds by bor- [fol. 1096] rowing under lines of credit from commercial banks. They raise another portion of their funds by selling commercial paper in the open market. Increasingly sales finance companies have used open market commercial paper. This open market commercial paper is invested in also by commercial banks and also by corporate non-financial corporations. These non-financial business corporations have increasingly invested a substantial portion of their liquid assets in the paper of sales finance companies; and, thirdly, sales finance companies raise a substantial amount of money by selling longer term securities in the form of debentures in the open market.

They have in the last few years proved to be extremely skillful at shifting the focus of their financing from one sector of the capital market to another, using the facilities of commercial banks, open market commercial paper, and sale of debentures as a means of raising funds sufficient to meet the demands of consumers. The institutions concentrate their lending activities in the field of consumer installment credit, automobile financing, and the financing of other consumer durable goods purchased on the installment plan.

Their relation to commercial banks, I think, is somewhat complex in the sense that on the one hand sales finance [fol. 1097] companies compete with commercial banks for loans, installment loans, and at the same time the sales finance companies use the commercial banks as a source of obtaining funds.

As a result, looking at the figures for commercial bank installment loans tends to understate the extent to which commercial banks are important in the consumer installment credit market, because they are important not only as lenders directly to consumers, but also as a source of financing for sales finance companies.

The Federal Reserve consumer credit study made in 1956 estimated that commercial banks finance directly or indirectly over 50 per cent of the total installment credit in the economy.

Q. Professor Smith, how does the dependence of finance companies on commercial banks for capital affect or differentiate their activity?

A. Well, as I say, they are in the nature of intermediaries, to some degree, between commercial banks and borrowers, and I think to some degree in a local area the elimination of competition in the commercial banking field, through the elimination of existing commercial banks reduces the alternatives open to some of the local sales finance companies that rely on commercial banks as a source [fol. 1098] of funds.

Q. Professor Smith, do you have any information with respect to the lending limits and interest rates of personal loan companies in the Philadelphia area?

A. Personal loan companies, what are sometimes called small loan companies, have sprung up in every state——

The Court: Read the question back.

(The reporter read as follows:)

"Q. Professor Smith, do you have any information with respect to the lending limits and interest rates of personal loan companies in the Philadelphia area?"

A. Yes, I do.

The Court: That can be answered yes or no.
The Witness: Yes.

By Mr. Reycraft:

Q. What is that information, Professor Smith?

A. Well, under the Pennsylvania Small Loan Act as amended in 1953, personal loan companies can make loans up to $600 at rates of interest that amount to 3 per cent per month on the $150, 2 per cent monthly on the next $150, and 1 per cent per month on the remainder, with loans over 18 months being subject to a 6 per cent per annum rate on the [fol. 1099] unpaid balance.

Q. What does this mean in terms of annual rates?

A. 3 per cent per month on the unpaid balance amounts to 36 per cent per year as an interest rate, 2 per cent per month on the unpaid balance amounts to 24 per cent a year, and 1 per cent a month amounts to 12 per cent a year.

Q. And how do those rates compare to the rates charged for consumer lending by the two banks involved in this case?

A. Well, there is information in the merger application, but I have to search for it. I am sure that the rates charged for small loans by commercial banks here, as in other communities, are substantially lower than the interest rates charged by companies under the Small Loans Act.

Q. Refer to Government's Exhibit No. 39 (handing to the witness).

A. Well, according to this, on regular consumer loans, which include both direct loans and contracts purchased from dealers, the range is from 5 to 6 per cent simple interest and $7 or $8 per hundred add on.

Mr. Littleton: What are you reading from?
The Witness: Reading from G-39.

[fol. 1100] By Mr. Reycraft:

Q. Professor Smith, referring to factors, can you describe what function is performed by a factor?

Mr. Littleton: Before you go into that, may I have the answer to your last question.

Mr. Reycraft: My question, sir, was does the exhibit indicate the interest rates charged by one or both of the merging banks with respect to consumer loans?

Mr. Littleton: Are you talking about the actual rate or the maximum rate?

Mr. Reycraft: The range.

The Witness: Well, this section I have here refers to the interest rates charged in the consumer credit department of the merging bank, and it indicates that the interest rates on direct loans in contracts purchased from dealers ranged from 5 to 6 per cent simple interest to $7 or $8 per $100 add on.

Now, the $7 to $8 charge add on is approximately—it depends a little bit on the maturity of the loan—but it is approximately a 14 to 16 per cent interest rate. That is, for a one-year loan that is paid back on an installment basis, a borrower has in his possession on the average during [fol. 1101] the year about half the amount of the loan originally made, and so the interest rate is approximately double the regular interest rate computed on a compound basis.

By Mr. Littleton:

Q. Now you are comparing that to the statutory maximum for small loan companies?

A. The point I am trying to make is that here as elsewhere in the country it is much less expensive for the consumer to borrow from a commercial bank than it is to borrow from one of those small finance companies which are permitted by the state law to charge high interest rates precisely because it has been found difficult to find financing for consumers of low-credit risk, where the banks simply can't afford to make loans to them at normal interest rates.

Mr. Littleton: Mr. Stenographer, will you read my question, and, Professor, will you listen to it and answer.

(The reporter read as follows:)

"Q. Now you are comparing that to the statutory maximum for small loan companies?"

A. Yes.

Q. To the statutory maximum?

A. Yes.

[fol. 1102] Q. You don't know anything about the actual rates charged by small loan companies?

A. No, I really don't.

Q. In the Philadelphia area, of course, I am talking about.

A. No.

Q. You do not know anything about the actual rates?

A. No, I don't.

Q. The comparison you are making of the figures you read from G-39 is with the statutory rates for small loan companies in Pennsylvania; is that correct?

A. Yes, sir.

Q. And you don't know the actual rates or have any record of the actual rates charged by those small loan companies?

A. No.

By the Court:

Q. From what part of Exhibit G-39 did you read, Professor?

A. It is Page 2 under "Merging Bank." I read a portion of the second paragraph.

The Court: All right, I have it. Thank you.

By Mr. Reycraft:

[fol. 1103] Q. Professor Smith, directing your attention to the question I asked you a little earlier with respect to factors, will you explain the manner in which the activities of factors differ, if they do, from those of commercial banks.

A. Well, factors and commercial finance companies, their activities are to a considerable extent directed toward financing receivables of relatively small concerns. Factors by receivables, take responsibility for the collection, and

bear the risk, whereas other commercial financial institutions simply take over the collection process without taking the risks. Factors activities are mainly connected with the taking over and collection of accounts of business enterprises.

Q. Professor Smith, would you agree with the statement at Page 97 of the application, which states that because of the nature of the risks their business—that is, factors—does not compete significantly with the credit business of commercial banks?

A. I believe that is true nationally, and I would expect it to be true in the Philadelphia area.

By Mr. Littleton:

Q. Even though it is stated in the application?

A. Yes, sir.

[fol. 1104] The Court: That is one of the reliable parts.

By Mr. Reycraft:

Q. Professor Smith, in order to understand the markets in which the two combining banks operate, will you indicate the nature of the geographic markets in which large banks do operate?

A. Well, I think we have to distinguish in discussing the market structure of commercial banking. I think we have first to direct our attention at the national markets that these banks operate in. To some extent large banks, and as far as that goes, smaller banks also, operate in the national money and credit markets of our economy. Now, these markets I would characterize as among the most competitive markets that we have in our economic system. That is a national credit market, and I would rate the national credit market down, at least roughly, somewhat as follows, as including the Government securities markets, the markets for bonds of large national corporations, the markets for bonds of states and large municipalities having high credit ratings, the commercial paper market—this is more on the short-term end of the national open market—and also closely related, the market for prime [fol. 1105] bank loans of large corporations, which have

numerous alternatives as far as banking connections are concerned.

Q. Are there also regional markets, Professor, in which large banks operate?

A. Yes, I think when we get away from the national market, then the markets in which banks operate break down into a number of overlapping and loosely connected regional markets. That is, it is not possible clearly to define these regional markets except in the sense that most individual borrowers have a market within which they have banking connections and other facilities for raising capital. That is, the market alternatives open to each borrower depend to a great extent upon the size of his operations, on his credit rating, on the size of the area with in which he is well known, and the number of lenders willing and able to meet his credit needs within this area.

It seems to me that the elimination of a large lender through the merger of two large city banks may therefore significantly reduce the degree of competition or significantly—to be more specific, eliminate an important alternative source of credit for many borrowers over a rather wide area, but with the greatest effects being concentrated [fol. 1106] nearest the locale of the banks that are involved in the merger.

Q. Referring to the local market aspect of the operation of commercial banks, Professor Smith, will you state what your opinion is with respect to the primary local market of commercial banks, and particularly the two commercial banks involved in this case.

A. Well, it seems to me that the major impact of a merger of the kind we are discussing is likely to be felt in the immediate vicinity in which the banks are located. Although the local market area shades off gradually into regional markets for different borrowers depending upon their size, so it is really difficult to define the local market area with great precision. It seems to me that it is appropriate, as a practical matter, to specify the local market as the area in which the banks involved are located, that is, in this particular situation, the four-county area within which the banks can establish branches, that is, within which the offices of the banks involved are located. It seems to me that it is in this area where banking offices are available for

customers of the banks, where the major anti-competitive effect of such a merger is likely to fall.

Q. Is it your opinion, Professor Smith, that there would be a competitive impact as a result of the merger pro-
[fol. 1107] posed in this case?

A. Well——

Mr. Littleton: Objected to, if Your Honor please. I haven't heard this witness demonstrate that he shows the slightest knowledge of Philadelphia as yet. He hasn't told us what he has done in the way of study. He said he has been on this job three weeks. How can he possibly express an opinion as to the impact of this merger on the competitive situation in Philadelphia?

By Mr. Reycraft:

Q. Professor Smith, will you describe the study which you have undertaken with respect to familiarizing yourself with the statistics and other materials related to the Philadelphia area?

A. Well, as I said yesterday, I have studied the merger—I have worked terribly hard in the last two weeks on this case, and I have spent considerable time going through the merger application and the other materials that have been developed in connection with the case, and I have done some specific work, which I will come to in a little while, which is very distinctly related to the Philadelphia area, although not quite——

The Court: You better get to it pretty fast to answer
[fol. 1108] that question which was asked you, Professor, because I have to hear it first before I will permit you to answer it.

Mr. Reycraft: Your Honor, I am not sure that I understand that.

The Court: In other words, I want demonstrated to me what work he has done so that I can pass on his capacity to answer the question that you have just asked him. So I suggest you develop it along that line, because it may be that I will permit it in a limited sense or take it for what it is worth. I am not ruling on it one way or the other, but if he is going to give it as strictly an expert opinion

on Philadelphia, I want to know what he knows about Philadelphia.

Mr. Reycraft: I understand, Your Honor.

By Mr. Reycraft:

Q. Professor Smith, have you examined the application which the bank submitted for approval to merge?

A. Yes, I read the merger application with considerable care.

Q. Have you examined the exhibits which the Government has identified in the record in this case?

A. I have examined most of the exhibits.

Q. And are you familiar with the exhibits relating to [fol. 1109] the geographic origin of the loans, deposits, lines of credit of the banks involved in this case?

A. I can't recite the chapter and verse on these without reference to them.

Q. I have them here, Professor, if you care to refer to them.

Have you in connection with your preparations for your testimony undertaken other studies which are not included in the exhibits which are in the record of this case?

A. I have.

[fol. 1110] Q. Will you describe the nature of the study that you have undertaken?

A. Well, I have made a—what I have really focused my attention on with respect to this local area more than anything else is the question of whether a merger of this kind—and I hope I can show that my material relates specifically to the Philadelphia area——

Q. Will you describe your material, Professor?

A. Well,——

Q. Go ahead.

A. Using the materials taken from the answers to some of the questions, as well as the materials taken from the depositions of witnesses and other materials, I have attempted to develop an evaluation of the impact of the merger in the Philadelphia area that we will not expect to have if the merger resulted in the opening of further large accounts in this area by large corporations.

I tried to develop to some extent a quantitative study of the impact of this form of development.

Q. Have you also discussed the local banking situation with other persons in this area?

A. Yes. I have.

Q. Are those persons familiar with the banking situation in this area?

[fol. 1111] A. Yes. They are.

Q. Will you state who some of them are?

A. Well, I have discussed it with Prof. Oscar Goodman of Northwestern University, who is to be a witness in this case, and who has analyzed the local banking situation with considerable care.

By Mr. Littleton:

Q. How can you say that last? How do you know he has?

A. Well, I have seen some of the materials he has been working on with respect to the details of the branch banking locations of the banks involved in this case.

By Mr. Reycraft:

Q. Have you discussed it with other persons as well?

A. Also with Prof. Donald Jacobs of Northwestern University, who is also to be a witness in this case, and with the staff of the Department of Justice, the people who have been working on the case.

Q. Have you discussed it also with employees of the Federal Reserve Bank?

A. I have discussed certain aspects of it with employees of the Federal Reserve Bank, yes.

By Mr. Littleton:

Q. Name them.

A. Name the people?

[fol. 1112] Q. Name them, the employees of the Federal Reserve Bank with whom you have discussed this.

A. Well, I have discussed it with members of the Research Department.

Q. Name them.

A. Mr. David Eastburn, the Vice-President in Charge of the Research Branch of the Federal Reserve Bank of Philadelphia, and Mr. Clay—Dr. Clay Anderson, who is

a member of the Research Department of the Federal Reserve Bank of Philadelphia.

May I amplify that answer a bit?

Q. May you what?

A. May I amplify that answer?

Q. I just asked you to name the people.

A. I know you did.

By Mr. Reycraft:

Q. Would you care to explain your answer, Professor?

A. Yes.

I have discussed the case with these people and I have also obtained some of the information with respect to the Philadelphia banking situation that I needed for the purposes of the specific studies I was making from people in the Federal Reserve Bank of Philadelphia.

[fol. 1113] By Mr. Littleton:

Q. Who?

A. The people I mentioned.

Q. Any others?

A. Yes. There is one whose name I can't remember, who was in the Research Department.

Q. What is his position?

A. I am not sure. He's an employee in the Research Department.

He helped me dig out some information on Philadelphia and the four-county area demand deposits which I used for a certain purpose.

By Mr. Reycraft:

Q. Have you discussed it with Prof. Lester Chandler?

A. Only very briefly.

By Mr. Littleton:

Q. Who is he?

A. He is a professor of economics at Princeton.

By Mr. Reycraft:

Q. Will you identify him?

By Mr. Littleton:

Q. I beg your pardon?

A. He is a professor of economics at Princeton.

Q. Where is he now?

[fol. 1114] A. I have no idea. I have not discussed the case with him.

Mr. Reycraft: He is in India.

Mr. Littleton: I know that. That's what I wanted him to say.

The Court: He is in India?

Mr. Littleton: He is in India, Your Honor.

Mr. Reycraft: He is in India, Your Honor. He left on June 2nd.

By Mr. Reycraft:

Q. Prof. Smith, on the basis of your study of material and discussions——

Mr. Littleton: May I cross-examine him, if you have finished?

Mr. Reycraft: Oh, surely.

By Mr. Littleton:

Q. When did you first come to Philadelphia in connection with this case?

A. Let's see. It was—I have been here about ten days, I believe.

Q. Ten days?

When did you first start working on the Philadelphia aspect of this case?

A. Well, I read the merger application before I came.

[fol. 1115] Q. When?

A. I beg pardon?

Q. When?

A. Oh, about two weeks before I came to Philadelphia.

Q. And that would be——

A. I did not have time to spend very much time on the case until I came here.

Q. And you were first retained in this case about three and a half weeks ago?

A. That's right.

Q. Had you ever made any study of the Philadelphia banking situation before that?

A. No, sir. I had not.

Q. Particularly?

A. No, sir, I have not.

Q. You speak about a four-county area. What are those counties?

A. Philadelphia, Montgomery, Bucks, and Delaware Counties.

Q. In which direction from Philadelphia does Bucks County lie?

A. I believe it's northwest—I am not sure, to tell you the truth.

Q. Where does Delaware County lie?

A. I am not sure.

[fol. 1116] Q. How about Montgomery?

A. I am not sure.

Q. Did you ever hear of Camden, New Jersey?

A. Certainly.

Q. It's right across the river, is it not?

A. That's right.

Q. It is connected by two bridges, isn't it, with Philadelphia?

A. I don't know.

Q. You don't know that.

Did you include the Camden area at all in the consideration that you gave on the basis of which you were about to express an opinion?

A. No. I did not.

Q. How many commercial banks are there in Philadelphia?

A. Seventeen, I believe.

Q. How many branches are there in Philadelphia?

A. Thirty-eight, I believe.

Q. How many——

A. No, no. No, there are thirty-eight banks, I think, in the four-county area.

Q. How many branches?

A. Oh, I just can't remember the numbers.

Q. How many banks? When you speak about the four-[fol. 1117] county area, how many banks in the four-county

area could make loans to persons or corporations up to $25,000?

A. I can't—I can't answer that question.

Q. You don't know anything about the lending limits of any of these banks?

A. I know the lending limits of the two, the charter bank and the merging bank, and the lending limit of the Pennsylvania Company, approximately.

Q. We are talking about alternative sources, aren't we?

A. Yes, sir.

Q. How many banks have a lending limit sufficient to make loans up to $50,000 in this four-county area that you picked out?

A. I am not sure.

Q. You haven't made any study of that?

A. That's true.

Q. And I suppose that goes for other categories of loans by size?

A. That's true.

Q. Is that correct?

A. That's true.

Q. How many of the Philadelphia National Bank borrowers over $50,000 have banking relations outside the Philadelphia area?

[fol. 1118] A. I am not sure of that, either.

Q. Have you given any consideration to any counties other than the three or four that you named?

A. No. I have not.

Q. What is the population of Philadelphia?

A. Slightly over 2,000,000.

Q. Something over what?

A. 2,000,000.

Q. What is the population of Bucks County?

A. I beg your pardon?

Q. Bucks County—what is the population of Bucks County?

A. I don't know that.

Q. I suppose you don't know Delaware or Montgomery, either?

A. No; I don't. I have a rough idea, but I——

Q. What is the number of population for each banking office within the four-county area that you selected?

A. I don't know that. I have seen the numbers, but I can't remember them.

Q. You don't know how many banks or banking offices there are per population?

A. No, I don't.

Q. You haven't studied that at all?

A. Well, I have looked at the figures, but I can't remember them.

[fol. 1119] Q. But you haven't made any study of that at all?

A. That's right; I have not.

Q. I suppose you haven't made any study at all in the ten-county area which appears in the application?

A. No, I haven't.

Q. Have you given any consideration to any of the counties other than Bucks, Montgomery, and Delaware?

A. No. I have not.

Q. Did you give any consideration to Bucks, Montgomery, and Delaware Counties?

A. As I say, I have done a study here on a certain aspect of this case that involved the four-county area.

Q. Well, let me ask you on another line, then.

The Girard Trust and the Corn Exchange bank merged in 1951. What study have you made of the other commercial banks in Philadelphia as to increase in loans of each since that merger in 1951?

A. I have not made any.

Q. Nor of the increase in deposits?

A. That's right.

Q. Nor of the increase in assets?

A. That's right.

Q. The Pennsylvania Company and the First National Bank of Philadelphia merged in 1955. What studies have [fol. 1120] you made with reference to all the other commercial banks in Philadelphia as to what their increase in loans has been since that merger?

A. None.

Q. Or increase in assets?

A. None.

Q. Or increase in deposits?

A. None.

Q. What is the leading bank of Delaware County?

A. The Delaware County National Bank, I believe. I believe it's the only bank in Delaware.

Q. What has been its growth over the last ten years?

A. Well, I don't know what its rate of growth is; it's grown substantially because it's carried through a number of mergers with other banks in Delaware County.

Q. It did what?

A. It carried through some mergers with other banks in Delaware County.

Q. Tell me which they were.

A. I can't tell you that.

Q. How many branches does it have?

A. I don't know that.

Q. Have you made any study of the commercial banks in New Jersey—Camden or elsewhere?

[fol. 1121] A. No. I have not.

Q. Have you made any study of the commercial banks in Wilmington, Delaware?

A. No. I have not.

Q. Would you consider or have you considered in your studies, if any, the First Camden National Bank & Trust Company as an alternative source for borrowing or depositing?

A. Not specifically, no.

Q. Where does the First Camden National Bank have its offices?

A. I would assume that they are in Camden, New Jersey.

Q. Any place else?

A. I don't know. The Camden—that bank has a branch in Philadelphia, I believe.

Q. Did you make a study of that?

A. Not specifically, no.

Q. You haven't made any study of what its growth has been in the last five years?

A. No. I have not.

Q. Or ten years?

A. (No response.)

Q. What is the lending limit of the First Camden National Bank & Trust Company?

A. I don't know.

[fol. 1122] Q. How many commercial banks are there for each range of loan in the four-county area?

A. I don't know.

Q. Do you know it for Philadelphia?

A. For each range, meaning loan size?

Q. Up to $25,000, $25,000 to $50,000——

A. I don't know.

Q. You don't know at all?

A. No.

Q. Do you have any figure on any of those things?

A. I know what the loan limits of some of the largest banks are, but I haven't made a study of the categories of the smaller banks.

Q. Now, you spoke of having had discussions with certain gentlemen in the Federal Reserve Bank of Philadelphia.

With what officers of any commercial bank in Philadelphia have you had discussions?

A. None.

Mr. Littleton: If Your Honor please, I object to this witness expressing any opinion as an expert or otherwise on the effects of this merger on competition or the banking situation in Philadelphia.

By Mr. Reycraft:

Q. Prof. Smith, will you explain in further detail the [fol. 1123] study which you made of the four-county area?

A. Well,——

Q. You may refer to any of the exhibits which have been identified, if you wish, or to the application.

A. Well, one of the things that interests me about this case is the contention that has been made that the Philadelphia area has shown a marked lack of growth in bank deposits and the contention that one way to get additional deposits——

Mr. Littleton: If Your Honor please, I object to this as not being responsive to the question and I move that it be stricken.

Mr. Reycraft: He is describing the foundation for his study, the aspects of it which appeared to warrant study;

and he is then going to describe the study that he made on the basis of his analysis.

Mr. Littleton: I object to the question.

The Court: Read the question.

(The testimony was repeated by the reporter as follows:

"Q. Prof. Smith, will you explain in further detail the study which you made of the four-county area?

"A. Well,——

[fol. 1124] "Q. You may refer to any of the exhibits which have been identified, if you wish, or to the application.").

The Court: You may proceed, Professor, without a dissertation.

Tell us what you studied.

The Witness: Well, I made a study of the effect of the increased loan limit on the Philadelphia area with respect to what this increase in the loan limit is likely to do, the effect the increase in loan limit is likely to have on the local availability of credit in Philadelphia.

By Mr. Reycraft:

Q. Prof. Smith, in making this study, what did you do? Will you please state the steps that you took in making this study.

A. Well, it's kind of hard to do.

I first developed——

By the Court:

Q. You considered certain factors, at least, didn't you?

A. I considered certain factors.

Q. All right. Tell us what factors you considered.

A. Well, I considered the probable ratio of new deposits to loan limits in Philadelphia, that is, how much additional deposits would be brought into Philadelphia, to the extent [fol. 1125] that large companies opened additional or established additional lines of credit in Philadelphia.

I tried to make a study of the probable extent to which those lines of credit would be used, and taking account of factors such as the reserve requirements in the Philadel-

phia area and the extent to which deposits that are generated by local loans are likely to stay in the Philadelphia area, I tried to make (and I think I have succeeded in making) at least rough approximations to the impact on the local area of the change in the lending limit.

By Mr. Reycraft:

Q. Now, in making this study, Prof. Smith, was it necessary that you know the detailed location of each branch?

A. I don't think that the material that I have been asked questions about has anything particular to do with the problem to which I have directed most of my energies.

Mr. Littleton: Let me ask you a question about this last thing you have said.

By Mr. Littleton:

Q. Of which banks did you inquire as to their largest borrowers and the deposits maintained by the largest borrowers?

A. I didn't. I relied on the material that I obtained from the deposition of Mr. Brown with respect to this. [fol. 1126] I think in making my calculations I have made assumptions—I have attempted to make assumptions that I have felt were particularly inclined not to exaggerate the conclusions that I arrived at.

Q. You didn't check on any facts?

A. I checked on facts with respect to loans in relation to loan limits from the material submitted by the two banks in response to the questions submitted by the Justice Department.

Q. Did you make any checks on the deposits maintained by large borrowers in each of the commercial banks in Philadelphia?

A. No, I didn't.

By Mr. Reycraft:

Q. Did you consider that it was necessary for you to do these things in order to reach a conclusion?

A. No. I think it seems to me that the study that I have carried out has relevancy to this case and that it is not

necessary for me to know all the details of the local banking situation in order to carry this out.

By Mr. Littleton:

Q. Don't you have to take all——

A. If I spent my time——

Q. Don't you have to start with facts, Professor?

[fol. 1127] A. I have used facts. The analysis is rather complicated; it's a little bit difficult for me to explain this in simple language.

I have prepared an exhibit with respect to this analysis that I would like to present to the Court, but I can't—it's too complicated for me to — able to explain exactly what I have done in this way.

Q. Well, would this study that you have made, that you say you have made, be applicable to any city in the United States?

A. That's right; it would.

Q. In other words, this wasn't directed just at this Philadelphia situation?

A. Well, the basic analysis that I developed would be applicable to any area and then what I attempted to do was to make some judgment, the best I could with the available materials, as to what the quantitative magnitudes were for the Philadelphia area.

The fundamentals of the analysis I developed would be applicable, it seems to me, to any area.

Q. Even though the facts and the conditions and the customs might vary in different cities?

A. I don't think it would make much difference in this particular case; that's right. I think——

[fol. 1128] Q. You mean your theory would be the same?

A. The quantitative; that's right.

Q. Your theory would be the same?

A. That's right.

Q. No matter what the facts might show?

A. Well, I would say to a considerable extent that's true. I admit that it sounds rather odd, but I think——

Q. But it is true?

A. I think it is true.

By Mr. Reycraft:

Q. You are not referring, are you, Prof. Smith, to the fact that the statistics on which you relied, for example, the loan limits in the area, the amount of reserves, for example, which it was stated by Mr. Brown, are kept behind loans?

A. No. I am referring to——

Q. The facts that you are referring to are the local customs of people, the geography, the population?

A. That's right.

Q. These are the types of things that you are indicating as an economist are not relevant to this particular type of analysis which you undertook?

A. That's right.

[fol. 1129] By Mr. Littleton:

Q. Professor, referring to the last answer you gave to me that this would be your theory and this is your theory no matter what the facts might show,——

A. No, that's not true. I can't explain why it is not true until I can present the analysis.

Q. But you have formed a theory without reference to facts other than the ones you have seen in the application and these exhibits that you are talking about.

A. I suppose that's true.

Q. And this theory would apply to any other city in the United States?

A. I think it would, yes, sir.

Q. In other words, this is a theory that you had even before you were retained to give an opinion in this case?

A. Some of the fundamentals of it, I had; but I developed the analysis as applied to this kind of a problem.

Q. So that you were retained because this was your theory——

A. That is not——

Q. —before you formed your opinion on this case?

A. No, sir; no, sir. That is not true.

All I meant to say is that I have studied problems of this kind quite a lot. I am concerned with commercial banking and how it works.

[fol. 1130] As a matter of fact, this particular analysis I did not develop until after I started working on the case. Once I got onto the case and ran across this particular problem, I directed and channeled a good bit of my energy into developing this particular kind of analysis, and I couldn't——

Q. As I understand it, it worked out to your usual theory; is that correct?

A. All right, yes.

The Court: Proceed, Mr. Reycraft.

By Mr. Reycraft.

Q. Prof. Smith, will you explain what you did in making your analysis?

A. Now, there is some material that I haven't presented here as background, and I might say in my judgment, fundamentally necessary background to this study, that is——

Q. Pardon me a moment, Professor. Is this one of them?

A. No, no. I have got an exhibit here.

However, there is some background material to this analysis that simply has to be presented if I am going to do a satisfactory job of explaining.

Q. Prof. Smith, I request that you make such background explanation as you believe is necessary in order to fully explain your analysis.—

[fol. 1131] A. All right. Let me explain the analysis I have carried out, starting from the beginning.

In the first place, the question, as I see it, is whether an increase in the loan limit in Philadelphia—and I think the essentials of the analysis would be the same in any other area; the details might be different, as I will try to show, whether an increase in the loan limit in the Philadelphia area will draw in loanable funds into the area, and therefore benefit the local area.

There is a suggestion in the merger application and some discussion in Mr. Brown's statement to this effect, and that is what I have directed my energy to some extent toward trying to analyze—whether, in fact, increasing the loan limit in banks in a particular area, with specific reference to Philadelphia, would increase or tend to de-

crease the supply of loanable funds available in the local area.

The first step in this analysis—and this is where I have to develop some background—that I have to discuss is the question of the effects of the availability of banking facilities on the location of business activity. That is, does an increase in the available banking facilities, an increase in the size of the largest bank, or any development with [fol. 1132] respect to banking likely to have a significant effect on the location of industry in a particular area.

Now, I would like to consider this question from two standpoints—one from a logical standpoint, and, two, from the standpoint of such empirical studies as have been made with regard to the factors influencing the location of economic activity.

In the first place, looking at the thing from a logical or a theoretical standpoint (and I think this is not—I think this is one necessary way to look at it) there is a fairly standard doctrine of analysis developed by economists with respect to the factors influencing the location of economic activity.

One way to look at it is that we can break down the costs connected with economic activity that will tend to vary from one area into another, for example, into transfer costs, so-called, and into processing costs.

That is, transfer costs have to do with the costs of transporting materials and other elements necessary to produce a product, and also to the area where the production is carried out—from the area where the materials come from to the area where the production is being carried on, and the cost of transporting the final product from [fol. 1133] the area where it is being produced to the area where it is to be used or consumed; that is, the transport cost of the final products.

Now with respect to these transfer costs, they do influence the location of many types of economic activity, and in this connection it is possible to distinguish approximately a couple of different kinds of industries with respect to their locational orientation. Some industries are oriented toward their sources of raw materials; for example, the steel industry historically is a good example of this.

It tends to be pulled toward locations of coal and iron ore because the transportation cost of these relative to the transportation of the final product is very high; so the steel industry tended to be located near its raw materials.

Other industries, such as retail trade, banking, and industries that are strongly oriented toward consumers, tend to be located near markets. One reason for this may be that the cost of transporting the final product relative to the cost of transporting the raw materials is relatively low, and also because the market of convenience factor and so forth.

Also, other factors that influence location include production-cost factors, such as the labor costs of production, [fol. 1134] the availability of labor of a particular type, the availability of an industrial complex within which the particular industry fits, and factors of this kind; that is, in addition to transfer costs that relate to the cost of transporting raw materials and final products, there are production factors in particular areas that influence the location of industry.

Now, how does the availability of banking services fit into this picture?

Well, from a theoretical point of view we can think of banking services as an input into a production process, like a raw material. A company that is going to produce a product has to have banking services—lending facilities, deposit facilities, and so on.

The thing about banking services, and particularly lending facilities, that is peculiar in this respect is that the transportation cost on this particular kind of facility is practically zero. That is, it costs almost nothing to transfer funds from New York to Philadelphia or, as far as that goes, from San Francisco to Philadelphia; that is, the cost of transfer of these particular things is virtually zero. The transportation costs of banking services, therefore, one would not expect would enter into the decisions of business firms concerning the location of economic activity.

[fol. 1135] I might say, then, to summarize that on a theoretical basis we would not expect the adequacy of banking facilities to have anything to do (at least I wouldn't expect) with the location of economic activity; and I might

add in a general way that there have been many studies that related to location of particular industries to this kind of general analytical framework that I have just mentioned, and this analytical framework generally seems to explain the facts with respect to the location of industry in many segments of the economy very well, indeed.

Now, turning from the analytical aspects of this to a review of the empirical studies of the location of industry, I spent a little time trying to find materials relating to studies empirical, actual studies that have been made of the factors that, in fact, seemed to influence businessmen with respect to their decision as to where to locate plants and other types of business activity, and I found several studies that I might refer to.

There is a study, for example, by George Katona and J. N. Morgan, called The Quantitative Study of Factors Determining Business Decisions in The Quarterly Journal of Economics for February, 1952.

This was a sample survey designed mainly to analyze the [fol. 1136] factors influencing industrial-location decisions, a sample survey of manufacturing plants in the State of Michigan, in which the producers of this study selected a sample of executives of plants and interviewed these executives with respect to the factors—well, the reasons for locating in the state and the disadvantages of a Michigan location and so on.

Well, now, they tabulated the results of their interviews in terms of percentages, with the percentages being weighted according to the amount of employment represented by the different firms that they discussed.

In considering the reasons for locating in Michigan they found such things as the fact that personal reasons, preferences of the executives of the firm represented 51 per cent of the replies; the location near markets, 33 per cent; such factors as the availability of plants or plant sites, 12 per cent; and so on.

There was no mention whatever of banking facilities or any other factor that seems to be at all related to banking facilities in any of the answers.

Similarly, in asking some of these executives their opinions with respect to the disadvantages of a location in Michigan, things that were mentioned were such things as

wage rates, 31 per cent; and so on. Again, no reference was made to the adequacy of banking facilities as a factor [fol. 1137] in their attitude toward the state.

In addition, I studied another analysis that had been prepared along the same line. These are the only two major studies of this kind that I know of. This one was prepared by G. H. Ellis and was called Why New Manufacturing Establishments Located In New England, studying the period from August 1945 to June 1948, in The Monthly Review Of The Federal Reserve Bank Of Boston For April 1949.

Now, this study was conducted by Mr. Ellis by taking the reports on the findings of a study of the location procedures, that is, the methods followed in deciding on industrial location and the problems related thereto, of 106 New England establishments which were set up in New England during the immediate post-war period. The two principal objectives of this study were to determine the factors which induced businessmen first of all to locate in the full New England area and then specifically to find out what made them pick out the particular communities which they decided to locate in.

In carrying out the study, a sample of firms that moved into New England of 106 firms was picked from a master list of new establishments that had been developed in New England during this 1945 to 1948 period, and then the [fol. 1138] individuals were interviewed by Mr. Ellis or his representatives.

Again, we find that tabulations were prepared in which the respondents were asked their main reasons why new establishments were located in New England. The tabulation was as follows:

There were 106 companies and they then mentioned 118 reasons. Some of them mentioned more than one principal reason, for example, and that is why the total number of reasons tabulated amounts to more than the companies.

Again, for all firms involved, personal reasons account for 37 of the locational decisions; market advantages for 28; production relationships, that is, the availability of ancillary production facilities and so on, 19 per cent; avail-

ability of materials—not per cent, I am sorry. These are cases, the number of cases out of the total number of 106.

Material availability, 11; management relationships with other management people in the area, 8 cases; labor considerations, 6 cases; available plant in the area, 5 cases; water supply in the area, 2 cases; waste disposal in the area, 1 case; transportation facilities, 1 case.

No mention whatever of banking facilities or related financial facilities.

Now, there was further a study made of the particular [fol. 1139] reasons for selecting particular localities within New England as a place to locate.

The Court: We will wait until 2 o'clock to hear that.

(Recessed at 12:28 o'clock P. M. for luncheon.)

[fol. 1140] [File endorsement omitted]

AFTER RECESS

WARREN L. SMITH, resumed.

Direct examination (cont'd.)

By Mr. Reycraft:

Q. Professor Smith, before the intermission I asked you whether you had examined any other material with reference to the decisions of corporations to locate business enterprises.

A. Yes, I examined everything I could find. I examined the Katona and Morgan article that I mentioned this morning and the Ellis article in the Federal Reserve Bank of Boston Bulletin, and an article which I found in "Iron Age," by an official of the Fantus Factory Locating Service, entitled "How to Choose a Plant," in the March 27, 1958, issue of "Iron Age," and I looked rather carefully throught the standard book in this field of industrial location, a book by Edgar M. Hoover, called "The Location of Economic Activity."

To summarize what I found, or rather what I didn't find, I found no reference in Professor Hoover's book anywhere to any banking facilities consideration as a factor in determining the location of industry, nor did I find in any of the [fol. 1141] articles which presented material on the empirical studies, interviews with businessmen and the like relating to the factors influencing the location of industry, nor did I find at any of those sources any indication that banking facilities have anything to do with industrial location.

The one conceivable exception to that finding is one interviewee in the Ellis study who was relocating a plant in New England, indicated that the major factor in his decision was the availability of capital. This could mean a lot of things, and there is no indication that it means banking facilities, but, in any case, this is the only response or reference in any of these studies that I was able to find that could conceivably be regarded as having anything to do with the availability of banking facilities.

Q. Professor Smith, did you give any consideration in your analysis to the assumption that an increase in lending limit would cause large corporations to increase their borrowing in the Philadelphia area?

A. Well, I think this is a somewhat conjectural question, and I am not sure that anybody can give a clear cut answer to it. I would, on the basis of my general——

Q. First let me ask, Professor Smith, what materials did you rely on in making this analysis?

[fol. 1142] A. Well, I relied to great extent on the general work I have done in this field. I have done a good deal of work in the past in the banking field, and I have had some contacts with people in this field, and I have done a very intensive analysis of the, for example, the consumer credit area, a very careful study of the Federal Reserve consumer credit study, where there is a lot of discussion of bank lines and lending limits, and so on, particularly in connection with the sales finance companies, and on the basis of this I would be inclined to doubt whether the expansion of the lending limit of a local bank would be likely to induce very many corporations to open lines of credit here, and particularly whether they would tend to increase their deposits.

Q. Even despite your doubt, did you analyze the situation on the assumption that it might?

A. Yes, that is really the main thing that I did do.

By Mr. Littleton:

Q. You mean you analyzed the situation in Philadelphia?

A. Yes, sir. That is, suppose we did have an increase in the lending limit of a local bank, let's say through the merger that we are considering here, and let's suppose that the increase in the lending limit did in fact induce some large national companies located outside the area [fol. 1143] or located in the area already, I don't care which, to open credit lines with the expanded bank in the Philadelphia area. Let's take this to be a fact. The question I am addressing myself to, is, if this happens, what would be likely to be the effect of such an activity on the availability of credit in the local Philadelphia area, and I shall address my attention in my analysis to the four-county area, that is, the branch banking area contiguous to Philadelphia, that is, the counties of Philadelphia, Bucks, Delaware, and Montgomery, as the local area.

By Mr. Reycraft:

Q. What other assumptions are contained in your analysis?

A. I think the best way for me to go through this analysis is to—I have prepared an exhibit on this point——

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 60 a three-page document headed "Effects of the Opening of New Credit Lines for Outside Firms on the Availability of Credit in Philadelphia."

(Document entitled "Effects of the Opening of New Credit Lines For Outside Firms on the Availability of [fol. 1144] Credit in Philadelphia" was marked G-60 for identification.)

Q. Professor Smith, referring to Government's Exhibit No. 60, will you explain what you did in preparing this exhibit.

A. Yes. What I did was to develop a general framework of analysis for this kind of program and then try to apply

that framework of analysis specifically to the Philadelphia area.

Q. In other words, you proceeded from the general to the particular?

A. That is right. Now let me explain the logic of my analysis here, and I will just go through this exhibit pretty carefully, because I realize that for somebody unfamiliar with this, it is kind of hard to follow.

In the first place, I have used symbols here, because it is easier to work out the general case this way and then substitute values for some of these symbols that I have estimated on the basis of materials taken from the bank activity in the Philadelphia area. I will explain where I got the estimates that I used for Philadelphia, in a little bit.

Let me explain the symbols first. First let this capital C [fol. 1145] at the beginning stand for the amount of new credit lines established. What I am saying is, suppose that the large companies open credit lines in Philadelphia, and I don't really care whether they are all firms that have economic activities located in Philadelphia already or whether they are large firms not now located in Philadelphia who open credit lines here. It doesn't matter.

Let C be the amount of new credit lines established on this basis. Now, when those new credit lines are established, I am assuming that what happens is that the firms in establishing the credit—let me go next to this—the letter d stands for the deposit requirement as a percentage of the credit line. That is, I am taking it as an assumption that when a credit line is established in a Philadelphia bank the firm establishing the credit line is going to be required to maintain, in a form of a deposit account in the Philadelphia bank, a certain portion of that credit line, and that percentage of the credit line that he has to maintain in the form of a balance in the Philadelphia bank is designated by the letter d in this analysis.

Q. Professor Smith, what is the basis for that particular assumption?

A. Well, the basis for that assumption is the statement [fol. 1146] that it made in the deposition of Mr. George H. Brown, the president of the Girard Corn Exchange Bank, on Page 29 in that deposition, where Mr. Brown mentions, on Page——

Mr. Reycraft: Pardon me, Professor. Before we proceed may we have this marked as Government's Exhibit No. 61.

(Deposition of George H. Brown was marked Exhibit G-61 for identification.)

Mr. Littleton: That is the whole deposition?

Mr. Reycraft: Yes, sir.

The Witness: On Page 29 of the deposition Mr. Brown is speaking about the establishment of new credit lines, and in a paragraph starting about slightly over half way down the page he says:

> "To illustrate, if we gave a line of credit of $2 million to a customer, he would carry $400,000 with us as a deposit. If we could move that line of credit up to $5 million for that very same customer, he would carry a balance with us something on the order of $1 million; so that we would increase our deposits [fol. 1147] just by being able to grant greater lines of credit availability."

Let me amend a statement I made at the beginning to make it a three-way rather than a two-way statement. I don't care whether the credit lines I am talking about are credit lines that are established in Philadelphia by companies that did not have operations in Philadelphia and did not have any credit lines here before or whether they are credit lines that are established by firms outside that have no operations in Philadelphia, nor whether it is an increase in credit lines by companies who already have a credit line in the Philadelphia bank. The analysis applies to any of those cases, whether it is an establishment of a new credit line by an inside or outside firm and whether it is an increase in a credit line already in existence.

Q. What is the next factor you considered, Professor?

A. Well, the next thing that has to be taken into account in this analysis is the reserve requirement percentage applicable to banks in Philadelphia or whatever the area is that one happens to be applying this particular framework to. That is designated by r.

Q. What is the next factor you used?

A. The next factor that has to be taken into account is [fol. 1148] the proportion of the credit line that is open that is in use on the average. That is, the amount of the customer's actual borrowings from the bank involved as a percentage of the credit line. That is, his loan from the bank as a percentage of his available line of credit. That is what the letter k stands for.

Q. Did you use additional factors?

A. Well, the additional factors that we have to take into account, we have to have a symbol here to stand for the amount of the addition to excess reserves of Philadelphia banks. I might point out this can be either positive or negative, that is, these operations may increase or they may decrease the amount of excess reserves available in Philadelphia banks to support lending and investing activities.

The next thing is, let's suppose that any additional excess reserves that Philadelphia banks get as a result of the opening of credit lines in local banks—let's suppose that any excess reserves they get for this purpose are used for the purpose of making loans in the Philadelphia area. For example, if they get more reserves in as a result of the opening of lines and the making of deposits than they use [fol. 1149] to make loans to outside customers—let's suppose that they use all that money to increase their loans to local firms located within the four-county area. Now, the amount of additional local loans that they make is designated by the letter L.

Finally, the final factor that I took into account—this is not a very important factor, but I thought that it ought to be introduced into the picture—the letter p stands for the proportion of new deposits that result from the making of loans in this locality that can be expected to remain in Philadelphia banks. That is, when a Philadelphia bank makes a loan to a borrower in this area, that borrower may spend that money anywhere in the United States, or, as a matter of fact, outside the United States. A great deal of these deposits will, I know, be drained out because they will be used to make payments to persons located outside the four-county area, but some of the deposits are likely to kind of stick in the Philadelphia area in the local banks,

and I tried to take into account in this analysis the proportion of deposits that can be expected to remain in Philadelphia, as distinct from those that can be expected to move out.

Q. What is the next step in your analysis?

A. Well, the next thing is to fit these variables that [fol. 1150] I have put down here together into an analysis. Let me run through the steps in this analysis and try to explain how I went about this.

In the first place, if we multiply d, which is the deposit requirement as a percentage of credit lines, by C, which is the dollar amount of new credit lines established, then this factor dC is the amount of additional reserves and deposits received by Philadelphia banks as a result of establishing credit lines.

Let me illustrate that with a number. If $100,000 of additional credit lines were established, and if d were 20 per cent, Philadelphia banks would gain $200,000 of deposits, and since by assumption these deposits come in from outside Philadelphia, they would bring with them $200,000 of reserves. That is, let's say a firm located in New York opened a credit line and put down a $200,000 deposit in Philadelphia. I am assuming that he would do this by writing a check against a deposit he has already in a New York bank and depositing that check in Philadelphia to open a credit line, and the reserve would shift at the Federal Reserve Bank from the bank in New York to the bank in Philadelphia. That is the first step.

[fol. 1151] The next step is, what I did was to take the product of k and C, k being the proportion of new credit lines in use on the average. That k times C is the amount of new loans to firms opening credit lines and the amount of reserves leaving Philadelphia as a result of these loans.

To illustrate what the numbers mean again, suppose a $100,000 credit line was opened, and let's say the average amount that the company borrowed under the credit line was, let's say, 25 per cent. Then this kC would be $25,000.

Now, at this point I would like to emphasize that the analysis I went through a few minutes ago about the location of idustry is crucial to my argument. I want to make my argument perfectly clear. You see, I am saying here in this second step, kC equals the amount of new loans to firms

opening credit lines. That is one thing it means. It also means the amount of reserves leaving Philadelphia as a result of these loans.

Now, if firms' actual economic activity in Philadelphia is unaffected by the availability of credit in Philadelphia, that is, if my argument that I went through a few minutes ago is correct, namely, that the availability of banking facilities is not a factor in determining industrial loca-
[fol. 1152] tion, then it follows that the firms located in Philadelphia have already decided the scale of their operations, their payrolls, and other activities in Philadelphia, quite apart from the availability of banking facilities here, and it follows from that that any money they borrow in Philadelphia will be spent, in effect, outside the Philadelphia area, and when it is spent outside the Philadelphia area, it will take outside the Philadelphia area an equal amount of reserves along with it.

That is why I want to make, as I say, perfectly clear what the basis for this argument is, that this study and factors influencing industrial location is directly related to this.

So now this is the first two steps.

Now, the next step is to put these two steps together. That is, if, when a firm opens a credit line, it makes a new deposit equal to d per cent of the credit line C, and it borrows in Philadelphia and spends outside k per cent of the credit line C, then the gain in reserves to the Philadelphia bank is equal to d minus k multiplied by C.

That is, to take an illustration of that: If they put down, if the credit line is $100,000, and they put down a deposit
[1153] of 20 per cent, or $20,000, and they immediately borrow 10 per cent or $10,000 and spend the money outside Philadelphia, when they put the deposit in, they put in $20,000, and when they borrowed and spent outside Philadelphia, they took out $10,000, the net gain of reserves to the Philadelphia bank from this operation is $10,000, the difference between the $20,000 and the $10,000.

This third step here tells us how much the net gain in reserves is to the Philadelphia bank. The next thing we have to take account of is the fact that if the local outside firms establish credit lines here and put down deposits behind those credit lines, and those deposits amount to d times C, then behind those credit lines the Philadelphia

banks are going to have to carry some additional reserves, so that to get the amount of reserves they will need to tie up, behind those new deposits that are created as a result of the credit lines we have to multiply the factor dC by the reserve requirement of the Philadelphia banks.

To carry that example through on that. If C is $100,000 and d is 20 per cent, then dC is $20,000, and if the reserve requirement was 10 per cent, then the amount of reserves that the banks would have to put down behind those new [fol. 1154] deposits would be $10,000. That is 10 per cent of the additional $100,000. I am sorry, $2000, 10 per cent of the additional $20,000 of deposits.

Now, next I tried to put all these factors that I have discussed so far together. That is, if the amount of loans that the Philadelphia Central Reserve City banks, the large banks in which these lines of credit are open, the amount of excess reserves they would have as a result of this operation is equal to the additional reserves they obtain, which is d minus k times C minus the amount of reserves that is tied up behind the deposits created, so it is d minus k minus rd multiplied by C, and I have just, in the second step here in line—Step 1, 2, 3, 4, 5—I have simply reorganized the algebra a little bit and I have said that that is equal to the gain in excess reserves of Philadelphia banks resulting from the establishment of new credit lines.

Maybe I ought to try to explain that again. d minus k times C is the additional reserves received. rd times C is the additional required reserves needed, and the difference between the reserves received and the reserves tied up is the amount of additional excess reserves, so that as a result of this operation the gain in the excess reserves to Philadelphia—or maybe I should really have made that [fol. 1155] more general to say the local area banks—is equal to that amount.

Now, the next thing I do is turn to a different aspect of the problem, namely, the local loans.

Now let us suppose that Philadelphia banks make L dollars of loans locally. The proportion p I took up here is the amount of the new deposits resulting from the local loans that can be expected to remain in Philadelphia banks. So when you multiply that f factor, p times L, we get the

amount of deposits resulting from local loans that remain in Philadelphia banks. That is, suppose p is 5 per cent and $100,000 of local loans are made, then to the extent loans are made, deposits are created, 5 per cent of those deposits, or $5000, remain in Philadelphia banks.

[fol. 1156] The next step is to calculate the amount of reserves needed to support those additional local loans and that is obtained by multiplying the amount of deposits resulting from the local loans by the reserve requirement. That gives us the factor rp times L, that is, carrying the analysis one step further, if $100,000 of local loans are established and 5 per cent of them were in Philadelphia, that will be $5,000; and the reserve requirements, for example, are 10 per cent, then it will require $500 additional reserves. rpL will be $500 to support the newly-loan-created deposits in the Philadelphia area.

Now, the next step is that the deposits that do not remain in Philadelphia banks obviously go somewhere. They have to go outside the Philadelphia area, so the ratio (1—p)L is the amount of reserve leaving Philadelphia as a result of local loans. That is, 1 stands for 100 per cent. I am using decimals instead of per cent here, really, and if p is .5 per cent, 1 minus p is .95, or 95 per cent. That is, 5 per cent of the deposits created by local loans remain in Philadelphia; and obviously 95 per cent of them must go outside Philadelphia.

Now, next we can put these two factors together taking rp times L, which is the reserve needed to support new loan-[fol. 1157] created deposits in Philadelphia, plus 1 minus p times L, which is the amount of reserves going out of Philadelphia. This gives the amount of reserves that are absorbed by making L dollars of local loans. They are either absorbed by being lost to the city or by being tied up behind local loans in Philadelphia and this also, therefore, represents the amount of excess reserves that the Philadelphia banks in the first place must have had in order to make L dollars of additional loans.

So that we could set this expression, which I have rearranged algebraically here, 1 minus p—I am now on the second line on page 2 of this thing—1 minus p with p multiplied by 1 minus r and the whole thing multiplied by L equals X.

That merely reflects the fact that the amount of excess reserves must be equal to the amount of reserves needed to support the loans, and we can turn that around and solve for the amount of loans that can be made on the basis of a given amount of excess reserves when we get the expression—the reciprocal expression—$L = \frac{1}{1-p(1-r)}$, and the whole fraction multiplied by X gives us the amount of loans.

In other words, from this thing, if we know the proportion of deposits that remain in the Philadelphia area, the reserve requirements of the Philadelphia bank and [fol. 1158] the amount of excess reserves available, we can calculate the amount of loans that can be made here.

Next, and the final step in the algebra is the bringing together of the two pieces of analysis that I have carried out. That is, I figured out analytically, taking account of the deposit requirements and the loan tendencies of outside depositors, the amount of excess reserves that would result from C dollars of new credit lines being installed in Philadelphia.

That expression is on the first page, the fifth step. It is $d(1-r)-k$; the whole thing multiplied by C, the credit lines, and that is equal to X, the amount of excess reserves resulting from this; and the other factor that I developed tells us how many loans the banking system in Philadelphia can make locally per dollar of additional excess reserves.

If I put these two factors together, in other words, if I substitute the factor $d(1-r)-k$ times C for X, in the formula on line 3 on the second page, I get my final result. That is a rather complicated-looking algebraic expression, L equals an enumerator, the $d(1-r)-k$, divided by the denominator $1-p(1-r)$; and that whole fraction multiplied by C, the number of dollars of new loan lines established [fol. 1159] in Philadelphia. This tells the amount or gives at least the basis for an estimate of the amount of loans that can be made in the local area as the result of the opening of new credit lines here.

Now, to try to make this clearer, I have put down here a numerical example which was worked out for the purpose of having the arithmetic come out easily so that

people could follow what I was trying to say, how you come out in it.

Suppose that, for example, C equals $96,000; that $96,000 of additional new credit lines are established, say, in Philadelphia.

Now, let me clarify that I am not trying to say that this particular numerical example fits the Philadelphia situation. This is a hypothetical example designed to clarify what I am trying to say.

In the next step I am trying to discuss the applicability of this analysis to the Philadelphia area.

Let us suppose that $96,000 of new credit lines were established here. I might say I take the number $96,000 because it happens to make the arithmetic come out simply, because I am merely trying to illustrate my point here.

Let us suppose, for example, that d is 25 per cent, that [fol. 1160] is, .25. That is, the deposit requirement behind the line of credit is 25 per cent, instead of 20 per cent, as Mr. Brown's deposition indicated.

At the next step there, there is a typographical error. That should be r equals .2, not r minus or r = .2; but r equals .2. That r equals 20 per cent reserve requirements, which are assumed to be 20 per cent.

The next thing is that k equals .1 in this illustration. In this illustration I have assumed that borrowers use only 10 per cent of their loan limits; that is, that their loans are only 10 per cent of their lines of credit on the average.

Finally, let us suppose that p, the proportion of deposits remaining in the local area is .05, or 5 per cent.

If we substitute these values into the formula, if you might want to call it that, that I have worked out up above, we come out, when we solve it all through, that L equals $10,000; that is, this suggests that if deposit requirements behind lines of credit are 25 per cent, reserve requirements are 20 per cent, loans run 10 per cent of lines, and that 5 per cent of the deposits are created by local loans and stay in the local area, then an increase in credit lines of $96,000 will permit the banks in the area to increase their loans to local borrowers by $10,000.

[fol. 1161] Now, again, to carry the illustration further, just to make it as clear as possible what I am saying here,

I have constructed a little hypothetical balance sheet showing the outcome when this operation is carried out.

Suppose borrowers did open $96,000 of new credit lines in Philadelphia and suppose they did, in fact, put down 25 per cent deposits behind those credit lines. Then demand deposits in Philadelphia of these borrowers would increase by $24,000, and when they transferred those deposits in here they would bring in $24,000 of reserves from outside, so, that the first step would be that reserves would increase by 24 and deposits by 24.

Then I have assumed that borrowers borrow an amount equal to 10 per cent of their line. 10 per cent of the $96,000 is $9,600, or 9.6; so, next I have assumed that outside loans are 9.6.

I have assumed that when they borrowed 9.6 they used the funds outside Philadelphia and these, as a result, take 9.6 thousand of reserves out of Philadelphia.

That is the next step, outside loans plus 9.6 reserve minus 9.6; and then, after this, I have calculated through my formula how much local loans can be made on the basis of this.

[fol. 1162] Suppose the banks did make local loans of $10,000 and suppose that of the deposits generated in the Philadelphia banks, in the first instance by those $10,000 of local loans, 5 per cent remain in Philadelphia. Then we will have on our liability side of our balance sheet an increase in demand deposits of $500, .05.

On the other side, the local loans will increase by 10, if the borrowers used funds that they borrow, and I assume they do, then they will either spend them here or they will spend them outside. If they spend 5 per cent of them here they will spend 95 outside; and those outside spendings when they clear through the reserve system will take $9.5 thousand of reserves out of Philadelphia.

Now, if you look at this balance sheet you will see that everything comes out right in the sense that when you get through the banks have 24.5 thousand of additional deposits, against which they are required to have a reserve of 20 per cent, or $4.9 thousand of reserves; and you will see that the reserves increased by $24,000 in the first step, they decreased by 9.6 thousand as a result of the outside

loans, and they decreased by 9.5 as a result of the funds drained out by the local loans.

The result is that reserves increased by 4.9, which is precisely the amount necessary to support the $24.5 thousand of additional deposits. This is the maximum amount [fol. 1163] the banks could lend in Philadelphia on this basis.

If they loaned any more than that they would wind up with less reserves than they need to support their additional deposits; and if they loaned any less than that they would wind up with some unutilized excess reserves. This is precisely the amount they could lend.

Now, that constitutes my explanation of the procedure I followed in developing this analysis.

Q. Now, Prof. Smith, applying that procedure to the Philadelphia area, what do you come up with?

A. Well, let me refer to the last page first.

Q. That is page 3?

A. As to the basis of my calculations with respect to Philadelphia.

In the first place, I took as my value of d, that is, the deposit requirements behind lines of credit, the 20 per cent figure suggested by Mr. Brown's deposition, where he said that if a firm increased its line of credit from $800,000 to $1,000,000, it would increase its credit line accordingly; and this suggested a 20-per-cent requirement for deposits behind lines of credit.

The second thing, my value r, I took the 16.5-per-cent reserve requirement applicable to central reserve city member banks. Now, that is the value that I used for r. [fol. 1164] It would be, as I tried to explain here, slightly preferable—it is all right to use r as the reserve requirement in connection with the establishment of new lines of credit because I am assuming that the lines of credit are established by the central-reserve-city bank in Philadelphia, where the reserve requirements are clearly 16½ per cent.

But in the Philadelphia area as a whole there is one commercial bank in Philadelphia; the Second National Bank, that is classified by the Federal Reserve System as a country bank rather than a reserve-city bank and is, therefore, subject to a 12-per-cent reserve requirement instead of a

16½-per-cent reserve requirement; and there are a number of banks outside Philadelphia in the four-county area that are member banks subject to a 12-per-cent reserve requirement.

In addition to that, there are a number of non-member banks in Philadelphia and in the outside counties.

Now, there is a problem as to how to handle non-member banks because they have reserve requirements that are—in Pennsylvania non-member banks are permitted to count—I have got the information here some place, but they include holdings of federal and state and local government [fol. 1165] securities to the extent of, I think, 40 per cent of their reserves; and inter-bank deposits, that is, correspondent balances, to the extent of a further portion of their reserves. In other words, their reserve requirements are not comparable to those of member banks.

What I did to try to get an estimate of what the reserve requirement in this area would be on the average, I just assumed that the reserve requirement applicable to non-member banks is really zero, because in the sense that it doesn't absorb any member-bank reserves, it only absorbs member-bank reserves to the extent that non-member banks hold deposits in member banks, and the member banks, in turn, have to hold reserves behind those correspondent balances.

This is a relatively small amount and it is extremely difficult to judge what it would be, so I just calculated what the result would be on the assumption that it was zero. It wouldn't be very far from that; and I come out with a 14-per-cent average reserve requirement for all the banks in the four-county area.

Now let me say that in order not to complicate the analysis unduly, I didn't use that 14 per cent, which would be slightly preferable to use in the denominator of the final expression that I developed in the fourth step down from [fol. 1166] the top of page 2. It would have been a little better to use 16½ percent for r in the enumerator and an estimate of the average reserve requirements of 14 per cent in the denominator. It would have made very little difference in the results that I got, so I didn't bother to do it.

The reserve-requirement factor isn't terribly important

in this analysis, but anyway, that's what I did on the reserve requirements.

Next, with respect to k, which is the proportion of lines of credit that are in use on the average, in other words, the ratio of loans to lines, the best I could do on that was to take from the response of the Philadelphia National Bank to Questions 2 and 3 propounded by the Department of Justice some estimates. Well, those Questions 2 and 3 contained a list showing all the loans and lines of credit of customers in excess of $50,000.

There were some figures in the loan column marked with an x, and this was to indicate or designate cases where there was no formal line of credit. In all cases where there was an x in that column, the loan was exactly equal to the line of credit.

What I did was drop all of those cases out of my average [fol. 1167] because there was indicated to be no formal line of credit established, and took the rest—I simply took the sum of all the loans that had been made to those customers; and secondly, the sum of all the lines of credit extended to those customers, and then took the ratio of the total loans to the total lines of credit for all of those customers, as I say, leaving out the ones that were indicated to have no formal line of credit.

This, I might say, reduces my ratio somewhat because in all cases where they had not a formal line of credit, their loan was exactly equal to their line of credit.

When I got through with this I got a ratio of loans to credit lines of 51.8 per cent. That is my third step.

The fourth step was to try to get some kind of statement of what p is for the local area. The way I did that was—and I might say that in connection with getting the materials for constructing some of these estimates, particularly this estimate of the four-county area deposits, the Federal Reserve Bank was helpful. They let me have some materials to use for making these estimates.

I took from the Distribution of Bank Deposits by Counties and Standard Metropolitan Areas, June 15, 1960, published by the Board of Governors of the Federal Reserve [fol. 1168] System, the total amount of demand deposits—sorry, IPC demand deposits for the four-county branch-banking area surrounding Philadelphia as of June 15, 1960;

and for any estimate of p I took the ratio of that total to the total IPC demand deposits for the entire United States as shown in the same source, in order to get strictly comparable information.

The actual ratio of IPC demand deposits in the four-county area to the United States total on June 15, 1960, was 2.6 per cent. That is, Philadelphia on that date had 2.6 per cent of total IPC demand deposits in the United States.

Now, let me explain the rationale for making that calculation. p, remember, is the proportion of deposits that are generated as a result of making loans in this area that tend to stay here.

Now, what I assumed here when I made this calculation is that this figure is equal to the ratio of total demand deposits in the United States, total IPC demand deposits in the United States—I am sorry, excuse me—the ratio of total IPC demand deposits in the four-county Philadelphia area to the IPC demand deposits in the United States.

Now, this really must be approximately the case be- [fol. 1169] cause, as deposits clear through the Philadelphia area, if there was a strong tendency for more deposits than 6 per cent to stick in the Philadelphia banks, then Philadelphia bank deposits would tend to build up as a percentage of the total; and that is the basis on which I made that assumption.

Now, I think this assumption is, from the standpoint of this analysis, on the conservative side. I am told that for some time there has been a trend in this area toward a reduction in the Philadelphia ratio of demand deposits. That is, the additions to demand deposits in Philadelphia are very likely less than 2.6 per cent of the additions to demand deposits in the United States and this is, strictly speaking, the number that ought to be used here.

The truth is that this factor is so unimportant within any reasonable limit anybody could imagine in affecting the results that you get that it doesn't make a terrible amount of difference whether it's 2 per cent or 3 per cent or 5 per cent or even 10 per cent. It would make very little difference in the analysis, and yet I still felt that it should be taken into account.

Well, then, going back to page 3 of the analysis, what I did then was use my formula developed above and substitute into it the ratios calculated and estimated on the basis of the Philadelphia situation using d, deposit requirement behind lines of credit at 20 per cent.

[fol. 1170]

Q. Pardon me, Professor. You are referring to page 2 now, are you?

A. Page 2, I am sorry.

Reserve requirements of 16½ per cent, which coincides with the reserve requirements of reserve-city banks.

I didn't bother to take the k factor, that is, the ratio of loans to credit lines, exactly to 51.8 per cent. I have said equal to 50 per cent, which is about the same as this.

I wouldn't want to defend the accuracy of this analysis down to the last decimal point. I think the best you could get is some rough approximations to the situation.

Finally, I took p to be 3 per cent instead of bothering to make it equal exactly the 2.6 per cent.

So, on that basis my calculation comes out that L from my formula is equal to a minus—let me be sure that you notice the minus on there .342 C.

Now, that minus sign means that the opening of credit lines in Philadelphia on this basis will not increase the supply of bank credit available for making local loans in Philadelphia, but will tend to reduce it; and the order

[fol. 1171]

of magnitude of the reduction, taking the assumption that the ratios are what I have taken them to be from the statistics and from certain statements and so on, my estimate is that the supply of credit available in the local area, local Philadelphia area, would be reduced by something like 35 per cent of the amount of credit lines that are established here on this basis.

Mr. Reycraft: Any questions?

Mr. Littleton: If Your Honor please, I have no intention of anticipating cross-examination at this time, but I wonder if I could ask the professor one question.

The Witness: Surely.

Mr. Littleton: To see if he could clarify in my mind this numerical example on page 2.

By Mr. Littleton:

Q. Do I understand, Professor, that if this merged bank could grant a line of $9,600,000 to any customer, which neither of the banks can do now, it would add $1,000,000 to the amount available to lend?

A. If the money——

Q. May I finish?

A. Surely.

Q. —add $1,000,000 available to lend to local business and industry?

[fol. 1172] A. No, no. That is not correct.

Q. What do this C and L then mean?

A. If new credit lines were established of $96,000——

Q. I am just multiplying that.

The Court: $9,600,000 was the question.

Mr. Littleton: $9,600,000.

By Mr. Littleton:

Q. Wouldn't that mean, under your numerical example, that there would be——

A. That's right.

Q. —this $1,000,000 available to lend to local business and industry?

A. Yes, sir. That's right.

Q. Thank you. That's what I thought your numerical example meant.

A. I am sorry I misinterpreted.

By Mr. Reycraft:

Q. That numerical example, Professor, is not based on the actual situation for the Philadelphia area, however?

A. No. I would just simply like to emphasize that the numerical example was merely put in here to clarify my analysis.

By the Court:

Q. But the same example would reduce the credit available [fol. 1173] in Philadelphia, according to your testimony, by $3,420,000?

A. That's right, sir.

Q. So no bank in this world should take outside lines of credit because it reduces the area by one third; is that it?

A. Well, I have considerable more to say about this

Q. Good. Maybe you will make it clear.

Right now your testimony indicates that bank merger or otherwise that puts lines of credit outside reduces the availability of credit to the area.

A. That's correct; and I think that to a limited extent this is correct.

Q. That is your testimony. I followed you, I am sure.

A. But I do have, as I say, a number of further things to say about this before I am through.

Q. Very well. I will be happy to hear them.

A. Shall I go ahead now?

By Mr. Reycraft:

Q. Yes, Professor.

The Court: There is no question before you at this point. Mr. Reycraft has to pick up the ball.

By Mr. Reycraft:

Q. Will you explain your assumption further?

A. Well, I think, let me first say that in some respects I think the analysis I have developed here is conservative, [fol. 1174] and substantially so.

In the first place, I don't really think that this estimate of 20 per cent deposits behind lines of credit is likely to prove to be, likely to be realized.

Now, this is the impression I have on the basis of the study of banking generally—that banks do, in fact, usually try to maintain lines of credit, if they can get away with it, of something around 20 per cent behind loans, but not behind lines of credit. That is, there is a difference between lines of credit outstanding, that are not in use, and outstanding loans.

Now, it is my understanding that most banks do like to have the customer maintain a 20-per-cent deposit behind a loan, and I am also certain that no bank in its right mind would open a line of credit with a customer who did not have a deposit in the bank; and if he opened a line of credit with the bank he would have to put a deposit in.

The thing that I am rather inclined to question is whether the deposit would be likely to be as large as 20 per cent of the line of credit. I think it would be in some cases, where the bank had strong bargaining power with the customer, but I am not sure that this would generally be true.

It is my impression that in the cases where banks have [fol. 1175] succeeded in maintaining 20-per-cent lines of credit, in the most clear-cut fashion, have been the case of sales-finance companies, where sales-finance companies utilize the borrowing facilities of so many commercial banks, including very large ones scattered all over, that their bargaining power in relation to the banks is not as great as some other borrowers; and the banks are, in fact, able to obtain 20 per cent deposits behind, I believe, loans usually on the part of sales-finance companies.

Now, if the banks maintain deposits behind loans smaller than 20 per cent, this makes the analysis stronger; that is, I am sorry, if the banks maintain deposits behind lines of credit, succeed in inducing customers to make deposits behind lines of credit smaller than I have assumed, then this makes the credit drain out of the local area larger.

If they succeed in inducing companies to make deposits, establish deposits only behind loans, there is certainly no ambiguity whatever about the result, as long as my assumption is correct that the borrower spends all the money outside the local area.

On the other hand, I don't want to exaggerate the potency of this analysis, and I think maybe just the calculation I have made here does to some extent tend to exaggerate [fol. 1176] it.

What I think is very likely to happen is that if a commercial bank, by opening another larger lending limit, reorients its lending activities toward the national credit market or the regional credit market and away from the local area, and what would tend to happen would be that interest rates in the local area will tend to go up, that is, the supply of credit in the local area will be somewhat smaller.

As the interest rates rise in the local market, then it seems to me that the banks are likely to find it desirable to redirect their energies back into the local area some more and redistribute, that is, cut down a little bit on the extent

to which they emphasized the national market; and the result of this would be, I think, not so much a drain of credit away from the local area, although I would expect this to happen some, but a tendency for interest rates in the local area to rise somewhat above what they would be in the absence of this particular kind of activity.

That is, I don't want to exaggerate, also, if the local credit situation tightens and interest rates rise somewhat, there are many other lending institutions in the country that are in a position to transfer funds around from one part of the country to another, who will respond to [fol. 1177] the rise in interest rates in the local area and keep this tendency within bounds.

I think what I am really trying to argue here more than anything else is that the local area is very unlikely to gain credit as a result of the opening of lines, as a result of the expansion of the lending limits of its banks and the opening of lines of credit in the local area. I think, on balance, the local area is likely to lose. I don't want to exaggerate that the supply of credit is likely, to some extent, to be drained out of the local area and interest rates increased in that area.

On the other hand, I don't want to exaggerate the magnitude of that effect, but the direction of the effect seems to me to be fairly clear. I am fairly convinced, quite convinced, that a development of this kind would have some tendency to drain credit out of the local area, and certainly I can not imagine that it would tend to increase the flow of credit.

Maybe I can give the essence of this analysis more simply. If we neglect the complicating minor factors of reserve requirements and local deposits, I am simply arguing that if the banks induce customers to open lines of credit here and put down deposits here, and if the deposits they put down [fol. 1178] here are not greater than the amounts they borrow in the local area and spend outside, then the local area is simply bound to lose as a result of that.

If the firms do not put more in deposits in here than they borrow and take out, then the local area is bound to lose.

I have tried to take account of a number of minor complicating factors in the analysis, namely, the reserve requirement; and secondly, the tendency for credit to stick in the

local areas when local loans are made; but the effect of both of these factors is really rather unimportant. They are sort of refinements in the analysis.

But the essential point is that if a firm or firms borrow here more than they put in in deposits—and let me make quite clear what my specific assumption is— if they spend the money outside the area, that is, if the ability to borrow here does not induce them to expand the scale of their real economic activities and increase their pay rolls and things like that in the local area, which I firmly believe is the case, that they will not be induced to do so, then it seems to me it is clear that there is a tendency against which there are some natural economic forces at work that will tend to equilibrate the situation for credit to be drained out of the local area as a result of a development of this kind.

[fol. 1179] Mr. Reycraft: Would this be a convenient time for recess?

The Court: We will take a ten-minute recess.

(A recess was had)

By Mr. Reycraft:

Q. Prof. Smith, is the situation you described prior to the recess as applied to Philadelphia indicative of what, in your opinion, is happening in other large cities as banks increase in size?

A. I think this is true in several large cities. For example, it is true in New York City, that deposits in New York have not been growing as fast as the national average.

I think and I would suggest the fact that deposits in Philadelphia have not been growing as fast as the national average suggests to me that one factor in this development may well be that Philadelphia banks are directing a considerable amount of their energies toward financing economic activities outside the City of Philadelphia. I believe Philadelphia is, although very, very much smaller than New York, one of the six largest areas in terms of the proportion of loans made by the banking system outside the local area, that is, in the national market.

[fol. 1180] It seems to me that one way to describe what I am saying is that Philadelphia has, in relative terms, an unfavorable balance of payments, or the four-county area has an unfavorable balance of payments with the rest of the

country that reflects itself in the fact that deposits in this area don't grow as fast as deposits in the country as a whole.

What I am suggesting is that perhaps to some extent this unfavorable balance of payments, that is, this lack of growth in deposits in Philadelphia as fast as elsewhere, is already attributable to the fact that Philadelphia is exporting capital to the outside.

Now, exporting capital to the outside world does not improve an area's balance of payments. It tends to make it worse and so export of capital outside may well already be a factor in explaining what has been happening to Philadelphia bank deposits.

If Philadelphia banks concentrated still more on financing economic activity and borrowings—financing persons who now obtain their funds from areas outside Philadelphia—I suggest that this is likely to make the situation worse rather than better; although let me finally conclude, I don't want to exaggerate the importance of this fact.

[fol. 1181] Mr. Littleton: If Your Honor please, I wonder if the witness would tell us where he got his statistics about the position of Philadelphia being sixth.

The Witness: Well, I'm sorry, I can't—it's an article I read. I can find it.

By Mr. Littleton:

Q. Would you do that for us, please?

A. Yes. I will.

Mr. Littleton: Thank you.

Mr. Reycraft: Will you identify as Government's Exhibit 26 a table headed "Table VI"——

The Court: 61, isn't it? Isn't 60 the last one?

Mr. Reycraft: Mr. Brown's deposition is No. 61, Your Honor, which we did not give you.

The Court: I am sorry.

Mr. Reycraft: Will you amend my remarks to make this Table VI, "Relative Size of Business Borrowers at Member Banks by Size of Bank."

(Document headed "Table VI," entitled, "Relative Size of Business Borrowers at Member Banks by Size of Bank," was marked Exhibit No. G-62 for identification.)

[fol. 1182] The Witness: This table, which was taken from the Federal Reserve Bulletin of April——

Mr. Littleton: May we look at it for just a minute, please?

Mr. Reycraft: Yes.

Will you wait just a minute, Prof. Smith.

The Witness: Sorry.

By Mr. Littleton:

Q. Professor, I notice your source here is the Federal Reserve Bulletin of April 1958. Is that the latest there is on this subject?

A. Yes. This is the results—the Federal Reserve made two surveys of member-bank loans in 1955 and 1957; and they don't compile information classified in this way on a regular basis, so this is the latest available.

Q. But this is the latest?

A. Yes, sir.

[fol. 1183] Q. The survey which is referred to as your source is the survey with respect to which the two banks submitted sample studies; is that correct?

A. Yes, sir.

Q. Professor, referring to Government's Exhibit No. 62, what does it show with respect to the relative size of business borrowers at member banks by size of bank?

A. As you can see from the table, it certainly suggests a distinct tendency, which is really not at all surprising, for large banks to emphaisze lending to large borrowers more than smaller banks do.

Mr. Littleton: Excuse me just a minute.

If Your Honor please, I notice that large banks and small banks are indicated by under 10 million, 10 million to a hundred million, and so on, but we are now talking about small and medium and large business. May we have the definition of each of those before we get into it?

The Witness: Again, as you will see in the footnote, the Federal Reserve used a classification, and I didn't bother to copy down the details of it. I will be glad to get it and supply it for the record if you would care to have me do that.

By Mr. Littleton:

[fol. 1184] Q. You can't yourself define small business?

A. I simply took the Federal Reserve definitions. What they did was by industries. I don't think anybody can really define small versus large businesses.

Q. You made up the table in which you speak of small business, and I would like to know what your conception of small business is in the table you made up.

A. Generally speaking, the Federal Reserve used the definition of a small business as under $50,000, I believe.

Q. Is that the definition you are using in your table?

A. May I please explain? The Federal Reserve, however, felt—and I think this is unquestionably true—that a small business in some lines involves different size assets than in other lines. Small retail stores are of different size from small steel manufacturers, and what the Federal Reserve did was go through by industries and make their own judgments as to what constituted a small and a medium size and a large business in different industries. As I say, I can't remember the precise details of the Federal Reserve classification. I simply accepted it. There is a reference here to the place where you can find it. I would be very glad to get the table. As a matter of fact, it is not a very big table. It takes up half a [fol. 1185] page in the Federal Reserve Bulletin. I would be very glad to get the table and supply it for the record.

Q. In your testimony now as to small, medium, and large, your definition is within the frame of reference of the Federal Reserve category?

A. I simply accept the Federal Reserve definition of small, medium, and large business, yes, sir.

Now, accepting those definitions, this table does indicate that larger banks tend to orient their lending activities increasingly to larger borrowers, and particularly the last two classifications, I think there was some significance. Banks with assets between a hundred thousand dollars and a million dollars, their loans to medium sized businesses are about half of the total loans, and they make more loans in the aggregate to small borrowers than any of the classes of banks do. Their loans to large borrowers, as classified by the Federal Reserve, constitute about a third of their loan portfolios.

For banks with assets of a million dollars and over, the absolute amount of small loans goes down. The medium sized loans drop relative to the total, and the large loans constitute somewhat slightly more than half of their total [fol. 1186] loan portfolios. This does suggest that larger banks do tend to concentrate their activities in the field of larger business.

I would like to relate that to the analysis that I developed.

Q. Can you explain the relation of this exhibit to your analysis?

A. I am not so sure that this line of credit argument has a tremendous amount of validity to it, because I am not convinced at all that large firms will in fact tend to open lines of credit right and left because the bank gets slightly larger from a loan limit of $8,000,000 to a loan limit of $15,000,000, but I do think, from what we know about the way banks operate, that a substantially larger bank is very likely to redirect the channels of energy toward the larger borrowers and toward the national market. So that apart from the increase in lines of credit, and maybe the increases in lines of credit will be a by-product this, that is, if they are willing to make larger loans and make that known, they may be able to attract more business, but it will be their lending desire and their emphasis on the servicing of large business that will tend to attract lines of credit and build up their loans.

I suggest that this is not likely to benefit the local area, [fol. 1187] because the increase in banking facilities, in my judgment, will not have a tendency to cause business firms to locate their real economic activities in this area any more than before. What I am trying to say is that what we know about the different size banks suggests that as a bank gets larger it tends to direct its energies more and more to the financing of the national market and large firms.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 63 a one-page table headed "Table VII," entitled "Size-of-Bank Variations in Interest Rates on Business Loans by Size of Borrower."

(Document entitled "Table VII, Size-of-Bank Variations in Interest Rates on Business Loans by Size of Borrower" was marked Exhibit G-63 for identification.)

Q. Professor Smith, what is the source of the information contained in Government's Exhibit No. 63?

A. That again is taken from the same source as before. That is taken from the Federal Reserve Bulletin of April, 1957, from an article discussing the findings of the Federal Reserve loan survey of 1957.

Q. Professor Smith, what does the exhibit indicate with respect to variations in interest rates on business loans by size of borrower as related to the size of banks?

[fol. 1188] A. Well, as can be seen, the table cross-classifies—this time the Federal Reserve did not use the definitions small, medium, and large, but rather simply used a numerical classification for borrowers less than $50,000 total assets, 50 to 250, 250 to 1000, and so on, with the largest class consisting of borrowers with assets of $100,000,000 or more. I would like to be sure every one understands those figures are in thousands, so that the lowest number is $100,000,000 or more. Then they classify banks in the same way as before with total deposits under $10,000,000, between $10,000,000 and $100,000,000, between $100,000,000 and $1,000,000,000, and $1,000,000,000 and over, and relate from their survey of business loans the size or the interest rate on loans classified by size of borrower and size of bank.

I might say that the general information that we have, when we don't classify loans according to the size of the bank, is that large borrowers pay lower interest rates on loans than small borrowers do, and this table clearly suggests that.

In every one of these columns that you start from the top, with the borrower less than $50,000 of total assets, interest rates go down as the size of the borrower goes up. This, I might say, is not at all surprising. A large borrower [fol. 1189] is, generally speaking, a somewhat safer borrower, and also the loans to the large borrowers tend to be larger loans, and the administrative costs of the loan are to some extent fixed costs that don't vary with the size of the loan, so that the cost is spread over a larger number of dollars if a larger loan is made. So that there are really good, sound reasons why large companies might be expected to pay lower interest rates, but I would like to direct your attention to the behavior of the interest rates on loans of different sizes as the size of bank changes.

You will notice that for borrowers with less than $50,000 of total assets, as we go across that row, for all banks the average interest rate was 6½ per cent. Banks under $10,000 charged on the average, in the loan survey, interest rates just equal to the average. Banks with assets between $10,000,000 and $100,000,000 charged small borrowers on the average an interest rate of 6.4 per cent. As the size of bank went up to the hundred million and to the billion dollar class, interest rates rose to 6.6 per cent for borrowers in this size group, and for banks with deposits in excess of a billion dollars, the rate rose still further to 6.9 per cent.

A similar tendency is apparent as you go across the rows [fol. 1190] here for the different sizes. 50 to 250, the interest rate falls from 5.8 per cent to 5.6 as you move from under $10,000,000 banks to $10,000,000 to $100,000,000 banks. It increases slightly as you move to banks of a hundred million and a billion dollars and rises still more as you go to banks with deposits of over a billion dollars.

A somewhat similar tendency is apparent for borrowers with assets between $250,000 and $1,000,000, but when we get to borrowers with assets of $1,000,000 to $5,000,000 and the classes thereafter, the tendency becomes somewhat different. We begin to encounter a tendency, especially when we get to some of the larger banks, when we go from the $10,000,000 to $100,000,000 total deposit bank, through the $100,000,000 to the billion dollar deposit bank, and finally to the $1,000,000,000 and over deposit bank, we have a tendency for the interest rates charged to borrowers with assets in these larger size ranges to decline.

Now, the information available on the relationship between the size of the borrower and the size of the bank and the interest rate is admittedly quite limited. This is the only material that I know of that is available on this [fol. 1191] subject, and I do not want to exaggerate its significance. I think it is distinctly worth giving our attention to. That is, it does appear from this table that for some reason there is a tendency for the interest rates that smaller borrowers have to pay to go up as the size of the bank they borrow from increases, and that for the same—borrowers in the same size classes, for the larger size classes—borrowers in a given size class tend to pay a lower interest rate as the size of the bank increases.

Now, one possible explanation for this that I would like to suggest and then refute is that—now banks make loans of various terms. They make short-term loans, which are usually defined to be commercial and industrial loans with maturities of less than a year. They make so-called term loans which are sometimes divided into two classes, loans with maturities between one and five years and loans with maturities of over five years. One possible explanation for the fact that interest rates on loans by large banks tend to rise as the size of the borrower—interest rates tend to rise as the size of the bank increases for the same size borrowers, it is possible that larger banks make more term loans to small borrowers than the smaller banks do.

[fol. 1192] I have a table here that I would like to introduce giving some information on this.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 64 Table No. VIII, headed "Term Loans as a Percentage of Business Loans at Member Banks by Size of Borrower and Size of Bank, October 16, 1957."

(Document entitled "Table VIII, Term Loans as a Percentage of Business Loans at Member Banks by Size of Borrower and Size of Bank, October 16, 1957," was marked Exhibit G-64 for identification.)

Q. Professor Smith, what is the source of the information contained in Government's Exhibit No. 64?

A. This is also taken from the Federal Reserve 1957 loan survey as presented in the article given in the Federal Reserve Bulletin for April, 1958.

Q. And what does it show?

A. This table shows the amount of term loans as a percentage of business loans at member banks by size of borrower and size of bank as of October 16, 1957, the date on which the Federal Reserve loan survey was made. That is, these figures in this table are all percentages—and the term loan in connection with this table means a loan with an original maturity in excess of one year. That is, the fig- [fol. 1193] ure in the first column for all borrowers, the 38 per cent means that for all banks and all borrowers the percentage of loans—and these are percentages in value, —not numbers of loans, but amount of money outstanding

in the form of loans of different kinds—the term loans amounted to 38 per cent of the total for all borrowers and all banks.

Now, the reason I introduce this——

By the Court:

Q. If these are percentages, Professor, do not each one of these as you come down include the prior one?

A. No, no.

Q. How can you possibly add up percentages taking all banks?

A. I am not adding anything. You see, the first percentage in the upper left-hand corner, all borrowers and all banks, is derived by simply taking the total loans of all banks and the total amount of term loans of all banks and taking the percentage. The one right below it for banks less than $50,000 is derived from taking for banks with less than—I am sorry—the one right below it, the 46.2 per cent, is taking all banks but simply taking loans to borrowers less than $50,000, the proportion of those short-term loans. Now, actually the percentages in, let's see, for all borrowers and all banks is really a weighted average of all the per- [fol. 1194] centages in the table, the weights being the amount of loans outstanding in the different classes.

I can't construct that because I don't have the weights, but that is what it comes to.

The Court: I see. All right.

By Mr. Reycraft:

Q. Would it be correct to say they took these percentages, added them together, and took a weighted average?

A. Took a weighted average, but I don't know the weights.

Q. And this comes out to 38 per cent?

A. That is right. The reason I introduced this table, really, is to relate it to the point I just mentioned. I think it would actually clarify my discussion if I had the next table at the same time that I have this one.

Mr. Reycraft: Will you mark as Government's Exhibit 65 a table headed "Interest Rates on Member Bank Loans to Business By Size of Borrower and Maturity of Loan, 1957."

(Document entitled "Interest Rates on Member Bank Loans to Business By Size of Borrower and Maturity of Loan, 1957" was marked Exhibit G-65 for identification.)

Q. What is the source of the data contained in Govern-[fol. 1195] ment's Exhibit No. 65?

A. This also comes from the Federal Reserve loan survey as outlined in the article in the Federal Reserve Bulletin for April, 1958, and the classifications here are the same as used in the —wait a minute——

Q. Professor, will you indicate the relations between Government's Exhibit 65 and your testimony with respect to Government's Exhibit 64?

A. Well, in studying the prior table, Government's Exhibit 63, which suggested that for small borrowers interest rates tend to rise as the size of bank rises, I simply wanted to consider the possibility that this is explained by the fact that large banks tend to make a very large proportion of their loans to small operators in the form of term loans and that term loans bear higher interest rates.

Now, from Government's Exhibit 65 we see here the relation between interest rates on loans to different sized borrowers, classified according to the term of the loan, and there is one slightly odd pattern that we find here, which is apparent for borrowers—well, until we get up to borrowers with assets between $25,000,000 and $100,000,000, we find that interest rates rise as the term of the loan increases; that is, an interest rate, for example, for bor-[fol. 1196] rowers less than $50,000 of assets, it is 6.1 per cent on short-term loans, 8.7 per cent on intermediate-term loans with maturities of 1 to 5 years, and then drops to 5.8 per cent on long-term loans. That is, the interest rate is higher on intermediate-term loans with maturities of one to five years than it is on either short or long-term loans. This is apparent for smaller borrowers until we get to the $25,000,000 to the $100,000,000 class, then the interest rate remains constant. It is the same for one year as it is for one to five years.

I think the reason for this hump in the interest rate, that is, the fact that intermediate-term loans bear the highest rates, is that many banks charge borrowers—these loans are installment loans, and they are handled on an add on interest rate basis. They charge them, let's say, 6 per cent

interest on an add on basis, which works out roughly to 12 per cent interest when calculated in the proper way for comparison with an interest rate of so many per cent per month on the unpaid balance.

That, I think, is the reason.

Now, in the longer term loans to small borrowers they [fol. 1197] tend to be more mortgage loans and the interest rates on those for that reason tend to be lower.

Referring back to the previous table, you see, since interest rates on these loans are higher, one explanation of the fact that the interest rates tend to rise as the size of the bank increases for small borrowers is that large banks make more term loans with these high interest rates; but Government's Exhibit No. 64, which shows the term loans as a percentage of business loans at member banks by size of borrower and size of bank, it seems to me clearly does not substantiate this explanation because, for example, for borrowers of less than $50,000 the percentage of loans, short-term loans, rises from 42.6 per cent for banks with deposits between $10,000,000 and $100,000,000 to 48.2 per cent for banks with deposits between $100,000,000 and a billion dollars, and 60.1 per cent for banks with deposits of $100,000,000 and over.

It is true, the proportion of term loans, total loans, does rise as the size of the bank increases for small borrowers. The same tendency is true for borrowers with assets of $50,000 to $250,000. That percentage rises to 35.8 for banks with deposits of $100,000,000 to a billion, and to 41.2 for [fol. 1198] banks over a billion.

For the next class the ratio drops, but then for the larger classes there is an even more distinct tendency for term loans to increase than there is for smaller borrowers. Borrowers with assets between $25,000,000 and a hundred million, the ratio of term loans rises steadily as the size of the bank increases, from 15.5 per cent for banks with deposits under $10,000,000 to 17.2 per cent for banks with assets between 10 and a hundred million, to 31.9 for banks with assets between a hundred million and a billion, to 55 per cent for banks with assets of a billion dollars, or deposits of a billion dollars and over, and the similar tendency is present for the largest class of borrower, so that large banks make not only more term loans to small borrowers,

but they also tend to concentrate on term loans to large borrowers too.

I am quite prepared to admit that one has to be rather careful and cautious in interpreting, drawing conclusions, from materials that have been collected on the basis of a national sample of this kind, and I merely suggest that this is indicative and, certainly not conclusive evidence of a tendency for large banks to charge higher interest rates to smaller borrowers.

[fol. 1199] On the other hand, I would suggest that it ties in as a possibility, at least, with some of the analysis that I attempted to present earlier. That is, it seems to me that there is the possibility that the larger a bank gets, the more likely it is to concentrate on the lending to large national borrowers, the more favorably it may well treat these borrowers, to the extent that it succeeds in attracting accounts from these borrowers.

I have attempted to present an analysis that suggests that the supply of funds tends to be drained out of the local market area where the bank is located, and one might well expect that if this development should take place, it would tend to raise interest rates, particularly to small local borrowers who are dependent—particularly to small local business borrowers who are heavily dependent for the supply of their funds on the local market.

I suggest that this tendency, since large banks tend to be located in large centers, is at least not inconsistent with the line of analysis I attempted to develop earlier.

Mr. Reycraft: I have no further questions.

Mr. Littleton: No cross-examination.

[fol. 1200-1202] Mr. Price: I have no questions.

Mr. Reycraft: Your Honor, would it be asking too much to adjourn early today in view of the —

The Court: Due to your amazement?

Mr. Reycraft: Yes, sir, due to my amazement.

The Court: We will adjourn.

Gentlemen, since tommorrow is Friday, what is your pleasure? Do you want to go through to 4:00 o'clock or would you prefer, as I do, to quit at 3:00?

Mr. Reycraft: Is that a question, Your Honor?

The Court: All right, we will go right through to 1:00 o'clock and call it a day at the end of three hours.

Mr. Reycraft: We would be grateful for 1:00 o'clock, Your Honor.

The Court: We will go through then. Tomorrow morning we will start at 10:00 and go through to 1:00 and we will recess for the weekend.

(Adjourned at 3:50 P.M. until Friday, June 9, 1961, at 10:00 o'clock A.M.)

[fols. 1203-1204] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

FIFTH DAY

Philadelphia, Pa., June 9, 1961

Before Hon. Thomas J. Clary, J.

[fol. 1205] D. EMMERT BRUMBAUGH, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Reycraft:

Q. Mr. Brumbaugh, where do you reside?

A. Claysburg, Pennsylvania.

Q. What do you do in Claysburg, Pennsylvania?

A. I am president of the First National Bank.

Q. Will you describe the geographic area in which Claysburg is located.

A. Well, it is located in the southern part of Blair County. Blair County takes in Altoona, the main city, Tyrone, and quite a large number of small cities.

Q. What is the approximate population of that area?

A. 140,000.

Q. In your capacity as president of the bank in Claysburg, will you describe your duties.

A. Well, I am in charge of the administration of the affairs of the bank.

Q. What do those duties include? Do you have anything to do with loans?

A. I do, yes, sir.

Q. And do you administer all other activities of the bank?

[fol. 1206] A. That is right.

Q. Mr. Brumbaugh, have you held any official position with the State government?

A. I served as Secretary of Banking from 1947 to 1951.

Q. That is Secretary of Banking in the State of Pennsylvania?

A. In Pennsylvania, yes.

Q. What were your duties as Secretary of Banking in the State of Pennsylvania?

A. We had supervision of all State banks, savings and loan associations, mutual savings banks, pawn brokers, and also to administer the Automobile Sales Finance Act, and as an ex-officio member of the Securities and Exchange Commission.

Q. Of the State of Pennsylvania?

A. State of Pennsylvania, yes, sir.

Q. Would you describe the types of problems which were presented to your office in connection with these institutions.

A. Well, naturally, we had a group of examiners that examined all these institutions, and we also examined savings and loan associations and pawn brokers and everything. We had to supervise them as far as the requirements of the Government was concerned, or the State government [fol. 1207] was concerned.

Q. Your office examined the banks with respect to their financial condition?

A. Yes, sir.

Q. With respect to their financial soundness generally?

A. That is right.

Q. Did matters involving the establishment of branch banks come to your office?

A. Yes, sir.

Q. What were your duties in connection with applications for branch banks?

A. We had the privilege, as Secretary of Banking, to grant branches in counties, but when it came to contiguous counties, we had to get the consent of the Banking Board.

Q. Did you have similar duties with respect to the other financial institutions you refer to?

A. Same duties.

Q. The examiners you referred to, what were their duties?

A. Their duties were to go into the bank and examine their affairs completely in regard to loans and any fraudulent activity that might take place and whether they were exceeding their authority in any capacity—similar to the examinations that are taken care of by the FDIC, the Federal Reserve, and the Comptroller of the Currency in [fol. 1208] national banks.

Q. And these examiners reported to you at the time that you were Secretary of Banking?

A. That is correct.

Q. During your tenure of office as Secretary of Banking did you have an opportunity to become familiar with banks throughout Pennsylvania?

A. I did, yes, sir.

Q. Did you have an opportunity to become familiar with all types of bank problems arising in the State of Pennsylvania during that time?

A. Yes, sir.

Q. Would that include banks in Philadelphia?

A. Yes, sir.

Q. Will you tell us who some of the State banks are or were at the time of your tenure of office, who are located in Philadelphia.

A. I can at least recall the majority of them, I suppose. The Girard Trust Company was one at that time. The Provident Trust Company, Land Title and Trust, the Broad Street Trust, and some of the outlying banks. The First Pennsylvania Company was the largest one we had to supervise.

Q. Would it be correct that you received reports from [fol. 1209] examiners with reference to these banks as well as other banks in Pennsylvania?

A. Yes, they all come into the State Banking Department's offices at Harrisburg.

Q. You acquired a general familiarity with their operations?

A. That is correct.

Q. Mr. Brumbaugh, have you been a member of any legislative body?

A. I served in the Congress of the United States.

Q. How long a period did you serve in the Congress of the United States?

A. Two terms.

Q. What were the years?

A. From 1943 to 1947.

Q. And why did you leave that position, sir?

A. Well, I either tried to stay there—of course, you have to be elected to that office—or I was offered the appointment of Secretary of Banking, and having been in the banking business all my life, I thought I would rather have that than to go back to Congress at that time.

Q. When did you begin in the banking business, Mr. Brumbaugh?

[fol. 1210] A. Back in 1911.

Q. In what capacity did you begin?

A. I started as a clerk.

Q. With what bank?

A. First National Bank of Martinsburgh.

Q. Will you indicate the other banks with which you have been associated.

A. I was associated with Mountain City Trust Company of Altoona and then transferred from there to Claysburg, where I have served ever since in one capacity or the other.

Q. While you were a member of Congress were you a member of any committees?

A. I was a member of the Banking and Currency Committee.

Q. The House Banking and Currency Committee?

A. The House Banking and Currency Committee, yes, sir.

Q. What were your duties as a member of the House Banking and Currency Committee?

A. To attend all hearings where bills are presented to be acted upon — the Congress as a whole, where you naturally get a chance to vote a bill out or to not vote it out, and if it is voted out, then it comes before the Congress as a whole. The Committees all must decide on the bills that go before the Congress.

[fol. 1211] Q. So you had an opportunity as a member of that committee to study bank problems that were presented to the committee?

A. Yes, I have the privilege of studying them.

Q. Mr. Brumbaugh, have you been a member of any committees of the American Bar Association?

A. Not the American Bar Association. I have never been. I am not a lawyer.

Q. Pardon me. American Bankers Association.

A. Yes, I have been connected with the American Banking Association for many years, I would say. I am at the present time chairman of the Federal Deposit Insurance Corporation Committee, and I am on the Legislative Committee and also the Executive Committee. I am not appearing here, though, in that capacity. I am just here subpoenaed as an individual.

Q. You are not here at all as a representative of the American Bankers Association?

A. That is correct. No.

Q. Mr. Brumbaugh, did you have an opportunity during your tenure of Secretary of Banking and during your period of service as president of a bank in Pennsylvania to observe the workings of the various types of financial institutions in Pennsylvania, such as small loan companies, savings [fol. 1212] and loans, mutual savings banks?

A. Yes, sir.

Q. Would you describe the difference, if there is one, in your opinion, between commercial banks and other types of financial institutions.

A. Commercial banks, of course, accept demand deposits, and they carry checking accounts and do a complete commercial banking business, where a savings and loan association and a mutual savings bank, savings and loan associations sell shares. However, they do at times try to let the impression out that they are depositories of funds; and mutual savings banks, naturally, they are an organiza-

tion without a capital investment, who are supposed to pay their dividends out as they are earned. Their interest is paid on a dividend basis, as I understand, and it is based on the earnings that they secure. They have no checking accounts. I think commercial banks are the only ones that do furnish checking accounts, and that is one of the differences, and also they deal in demand deposits, rather than in time deposits, as the majority of the rest have a stipulation as to the time that you can withdraw amounts, especially large amounts.

Q. Mr. Brumbaugh, do you have an opinion with respect to the importance of commercial banks to a community?

[fol. 1213] A. I think it is the life blood of a community as far as their economy is concerned.

Q. Will you describe the way in which you believe this to be true.

A. Well, for instance, if an individual wants to build a home, if an industry wants to borrow some money to conduct their affairs, and churches and municipalities and everything rely almost entirely on their local bank to secure their loans and go to them for all their business transactions, you might say.

Q. With respect to the reliance of these groups on commercial banks for business transactions, could the same needs be fulfilled by any of the other financial institutions you referred to?

A. No, they could not.

Q. Is there one particular area of concentration of commercial banks?

A. I don't know exactly what you mean by that now.

Q. You referred to the fact that commercial banks have demand deposits. Does this affect the type of loans they make, for example?

A. It does, yes. Naturally, they have to keep the loans within the amount that they have on deposit.

Q. Does it affect the term of the loans that they make?

[fol. 1214] A. It affects the term of the loan. They make short-term loans, they make demand loans and collateral loans and all types of loans, especially to businesses. Where they only want credit for a short time, they can grant it. That is the difference between them and a savings and loan association or any other type of bank.

Q. If there were substituted for commercial banks in the community of the type with which you are familiar institutions of the type such as savings and loan associations and mutual savings banks, in your opinion, could these institutions fulfill the functions now fulfilled by commercial banks?

A. I would say definitely no.

Q. What in your opinion would be the effect upon the community of the substitution of institutions of the type I have described other than commercial banks?

A. Well, it would certainly place them to a considerable inconvenience, because they would have to go to some other community to transact their banking business.

[fol. 1215] Q. In your opinion, is it possible for a business to operate efficiently without access to a commercial bank?

A. I would say not.

Q. Now, in your experience as Secretary of Banking in Pennsylvania and in your capacity as an official of a committee of the American Bankers' Association, and your experience as a president of a bank in Pennsylvania, do you have an opinion with respect to bank mergers in Pennsylvania?

A. Well, as practically every banker, I guess, in Pennsylvania knows, I have more or less tried to retard both branch banking and bank mergers because I have always been opposed to anything that might tend to a monopoly; and I think that that would be bad for the country as a whole, I think it would be bad for the State of Pennsylvania. I am of the opinion and I always have been that it should be controlled by law, because if the laws permit it, as I have stated many times, you either become a party to it or a victim of it; and in this trend of bank mergers I think it should be possibly controlled by some type of legislation.

Laws are only made to protect the weak against the strong, and if this trend continues, this merger is permitted, it will only lay the foundation for possibly another merger [fol. 1216] in order for the other bank to get as large as they are.

I think that that is what is bringing about most of the mergers.

Mr. Littleton: If Your Honor please, I move that particularly the latter part of his answer be stricken. He wasn't asked about this merger. "This merger" I assume would be the one we are considering.

Mr. Reycraft: Would you read back the answer, please?

Mr. Littleton: I don't think he is qualified to speak on it, or he hasn't had qualifications adduced as yet.

Mr. Reycraft: Will you read back the answer?

The Court: Strike out every bit of his reference to "this" until he is asked questions which would justify that opinion, until we know whether his knowledge is sufficient to base an opinion or not about this particular merger.

By Mr. Reycraft:

Q. Mr. Brumbaugh, confining your answer to the question I asked——

The Court: Generalities.

Mr. Reycraft: Pardon me, sir?

[fol. 1217] The Court: Everything he says generally, his opinions on banking generally and so forth, may stay in the record.

When he digressed and began to be specific about this one, that's stricken. I don't say that he can't testify about it, but at this point the foundation has not been laid for any such expression of opinion.

By Mr. Reycraft:

Q. Now, Mr. Brumbaugh, you have already testified that you acquired familiarity with banking in Philadelphia on the basis of your knowledge of, among others, the Girard Trust Company, the First Pennsylvania, the Broad Street, and the Provident Tradesmen's Bank while you were Secretary of Banking.

Since that time have you had occasion or the opportunity to continue your general familiarity with banking in Philadelphia?

A. I would say only from the outside. I know when I supervised banks I didn't have the privilege of looking inside the Philadelphia National Bank, but I did the Girard Trust, and I want to say that it was one of the best-managed banks that I know of.

Q. During the time that you were Secretary of Banking, did you have an opportunity to form an opinion with respect to the reasons mergers were proposed to your [fol. 1218] office?

A. Well, there's various reasons that bring about mergers. Some of them are desirous, without a question of a doubt. In the case of emergency, I think no law should be ever passed that you couldn't merge a bank or permit branch banking because, if you do, sometimes you might not be able to save an institution that could be saved by merging.

Q. The occasion that you are referring to, what type of an emergency do you have in mind?

A. Well, as you know, banks sometimes get in financial difficulties, as well as any other type of business. Human frailties enter into it and sometimes you have people from the inside that really take advantage of them, steal money, which has occurred in many instances, some as high as $3,000,000.

Mr. Littleton: If Your Honor please, I move that this answer be stricken as being strictly irrelevant to this issue.

The Court: Overruled.

Proceed.

By Mr. Reycraft:

Q. Now, you referred to the financial condition of banks as being a reason for mergers. Will you repeat your answer with respect to the various types of financial problems which you have encountered?

[fol. 1219] The Court: He doesn't have to repeat it; he can just continue whatever he is saying.

The Witness: I would say that very often bad loans enter into it. There are communities that fail, and when the communities fail the industries fail and the banks sometimes fail, too, not due to any improper management or anything, but just simply due to a community that is passing out of existence.

By Mr. Reycraft:

Q. In your opinion, if a merger can be shown to be beneficial to the community it would be permitted then, as I interpret your answer?

A. I would say it should be permitted, yes.

Q. What are the reasons which you believe might justify a merger as being beneficial to the community?

A. When it is necessary to take over another bank to save it, I think that would be very beneficial to the community; and there are times in smaller communities, where there's two banks and the business has fallen off to any extent, where it would be much better for those two banks to merge into one institution, because I think they can serve the community better.

Q. In your opinion, might this be necessary to protect [fol. 1220] depositors of the banks?

A. I think in cases it would be, yes.

Q. This would be because of the financial condition of the banks?

A. Not necessarily financial condition; but if they could serve the community better by the two merging, especially where they are small institutions and it is difficult for them to make sufficient funds to pay their officers and function as they should, then I think it would be much better for two small banks in the community to merge, rather than have an outside bank come in and take them over by the same method.

Q. Mr. Brumbaugh, you testified earlier that you had knowledge of banking conditions in Philadelphia.

Will you describe in a general way your opportunities that you have had recently to keep familiar with banking problems in Philadelphia?

A. I wouldn't be qualified to say that I am sufficiently acquainted with the banking situation in Philadelphia at the present time, only from my outside, that is, from the outside of the institutions, looking at them from financial statements and so forth.

Q. Do you have an opportunity to examine financial statements of Philadelphia banks?

[fol. 1221] A. Yes.

Q. Have you had an opportunity to review the relative market shares of the Philadelphia banks, either in Philadelphia or elsewhere?

A. Only according to the quotations in the papers, as to the bid-and-asking price.

Q. Have you had an opportunity to observe in a general way the type of businesses in which these banks engage, that is, the Philadelphia banks?

A. I do, yes.

Q. Do you maintain correspondent relationships with any Philadelphia banks?

A. We do. We have correspondent relationships with the First Pennsylvania Company and the Provident Trust—that's not just the Provident, now, it's a combination.

Q. Would that be the Provident Tradesmen's?

A. The Provident Tradesmen's; that is correct.

Q. And the name of that bank has changed over the past several years, has it not?

A. Yes. They merged with the Tradesmen's.

Q. Now, you testified that you have a correspondent relationship with these banks.

Will you explain what a correspondent relationship is? [fol. 1222] A. A correspondent relationship is any banking institution, whether it's in Philadelphia or otherwise, to keep your excess funds and to clear your items.

While it can be done through the Federal Reserve, it's done more satisfactorily, I think, through the corresponding banks.

Q. Have you ever had a loan participation with either of the banks in Philadelphia?

A. I have had, on many occasions, and they have taken excellent care of us.

Q. Will you describe what a loan participation is?

A. Well, for instance, we are only permitted to make loans up to 10 per cent of our capital and surplus, which gives us a limited amount of loans to individuals and corporations; and we, for instance, have the County deposit, where they borrow considerable funds at times. I have negotiated loans here with our corresponding banks up to $550,000.

And also in participations of mobile homes and so forth, where we put in our share that we can and they take over the balance, and we have it for them.

Q. When you have had an application for a loan which exceeded your loan limit, have you had any difficulty in handling it?

A. I have not.

[fol. 1223] Q. Have you ever had to turn down a loan because of your loan limit?

A. I never have, no.

Q. Have you had a number of applications for loans in excess of your loan limits?

A. We have quite a few at times, yes.

Q. In your experience or your opinion, have you ever lost a customer because you haven't been able to grant him a loan?

A. No, not to my knowledge.

Q. Now, would you say——

A. We have lost customers that we didn't grant loans to, not because they weren't too large or we couldn't get the funds, but because we didn't think they were sound loans.

Q. Do you consider that your bank relies upon correspondent banks in order to carry on your business?

A. Not necessarily.

Q. Do you——

A. We might have less business and larger transactions, but we can still exist without it.

Q. But are there some foundations or purposes for which correspondent banks assist you substantially?

A. (No response.)

Q. In addition to the loans that you described?

A. Oh, they can assist us in many ways—in analyzing [fol. 1224] our securities. They are most helpful in anything you ask them to do.

We place a lot of our securities with our correspondent banks and they look after them for us. In a case where you have to place securities up for municipalities and so forth, they act as the trustee in that respect and they handle the securities, clip the coupons, credit our accounts, and so forth.

They are most helpful.

Q. On the basis of your background and experience is it your opinion that major banks compete for correspondent business?

A. They certainly do. I used to—one of our first corresponding banks here in Philadelphia was the Corn Exchange, which, I believe, has been taken over by the Girard. That was one of my first banks and they naturally compete for business.

In fact, they have not only competition in Philadelphia for business in Pennsylvania, but they also have competition from Pittsburgh and the other larger centers, as well as New York City.

Q. Do you consider it important that you have alternative sources of correspondent relationships; that you have available to you at least alternative sources?

[fol. 1225] A. I think it's very good to have them, yes.

Q. You testified that you have had correspondent relationships with three Philadelphia banks, now, and that you have had——

A. Two. We only have two.

Q. Two existing?

A. Yes, two existing.

Q. And you testified, I believe, that you had an earlier relationship with the Corn Exchange?

A. Earlier relation. That was one of our first correspondents, but, of course, since they merged, why, then we have changed our corresponding banks.

Q. Mr. Brumbaugh, do you have an opinion with respect to the effect on the community of the proposed merger of the Philadelphia National Bank and the Girard Trust Corn Exchange Bank?

A. Do you mean from a——

Mr. Littleton: Just yes or no, Mr. Brumbaugh, please.

The Witness: Read the question again, will you, please?

The Court: Read the question.

(The pending question was repeated by the reporter as follows:

[fol. 1226] "Q. Mr. Brumbaugh, do you have an opinion with respect to the effect on the community of the proposed merger of the Philadelphia National Bank and the Girard Trust Corn Exchange Bank?")

Mr. Littleton: Just yes or no, Mr. Brumbaugh.

The Witness: I would say that inasmuch as I have made no study of it, no.

By Mr. Reycraft:

Q. Do you have an opinion with respect to the effects on banking competition of the merger of the Philadelphia National Bank——

Mr. Littleton: Just yes or no.

The Witness: I would say yes.

By Mr. Reycraft:

Q. What is that opinion?

Mr. Littleton: Objected to, if Your Honor please.

The Court: Read the question back.

(The pending question was repeated by the reporter as follows:

"Q. Do you have an opinion with respect to the effects on banking competition of the merger of the Philadelphia National Bank——")

The Court: I will sustain the objection until we know [fol. 1227] whether we are talking about New Zealand or the United States, Alaska, Pennsylvania, Philadelphia, or where we are talking about.

By Mr. Reycraft:

Q. Do you have an opinion with respect to the merger of the Philadelphia National Bank and the Girard Trust Corn Exchange Bank on banking competition in Pennsylvania?

A. I would think that it would not affect banking in Pennsylvania to any great extent, no. I would think not because we still would have larger banks in Pennsylvania than the combination of these two banks.

I think that it——

The Court: Mr. Brumbaugh, may I suggest, don't go off the end.

The Witness: O.K.

The Court: You have answered your question. Now let him ask another one.

The Witness: Thank you.

The Court: Because we are in a sensitive area now. Let's keep the record clear.

The Witness: Thank you.

The Court: You understand the reasons.

The Witness: Certainly. That's all right, perfectly all right. I want to do that.

[fol. 1228] By Mr. Reycraft:

Q. Do you have an opinion, Mr. Brumbaugh, with respect to the effects of the proposed merger of the Philadelphia National Bank and the Girard Trust Corn Exchange Bank on banking competition in Philadelphia?

Mr. Littleton: Just yes or no.

The Witness: I would say yes.

By Mr. Reycraft:

Q. What is that opinion?

Mr. Littleton: I object.

The Court: I will give you a chance to cross-examine at this point on——

Mr. Littleton: If Your Honor please, the witness stated sometime ago, at the beginning of this line of questioning, that he didn't consider himself qualified to speak about Philadelphia because all that he had was the reports from the various banks and the state of the market so far as the stock of the banks is concerned.

The Court: Well, he has been in the banking business a lot of years, he has had the highest office within the gift of the Commonwealth with respect to banking, and I would say that of all the people who have appeared here he is probably the most expert in the line.

Now, if you want to question him on the basis of an [fol. 1229] opinion, I am going to let him express one.

By Mr. Littleton:

Q. Mr. Brumbaugh, when did your term of office as Secretary of Banking terminate?

A. '51.

Q. And you have had no official position in the Banking Department in Pennsylvania since that time?

A. No, sir.

Q. The only contacts you have had with the Philadelphia bank are such as you have described here to us?

A. That is correct.

Q. That is, your correspondence with the First Pennsylvania and your correspondence with the Provident Tradesmen's?

A. That's correct.

Q. Is that correct?

A. That's correct.

Q. And the First Pennsylvania is the result of a merger in what year?

A. The year that the First National Bank merged with the Pennsylvania Company.

Q. What year?

A. I don't recall what year it was that they took over the First National Bank.

Q. In what year did the Provident Tradesmen's merge? [fol. 1230] A. That, I can't give you.

Q. In what year did the Tradesmen's and the Land Title merge?

A. It's been about two years ago, I think.

Q. Before or after the Provident Tradesmen's?

A. Do you mean—you just asked me when did the Provident Tradesmen's merge.

Q. You said you didn't know.

A. I said that I thought it was about two years ago.

Q. I thought that it was Tradesmen's Land Title you said two years ago.

A. Well, it possibly was. I do not have——

Q. You are not familiar; is that correct?

A. I do not have the facts as far as the dates is concerned.

Q. How many commercial banks are there in Philadelphia at the present time?

A. I think I can give you that.

Q. While you are giving it, give us the names, will you please?

A. How's that?

Q. What is this you have there?

A. Pardon me?

Q. What is this paper you have there?

A. These papers?

[fol. 1231] Q. Yes.

A. Why, these papers include the assets, deposits, loans, offices, and capital of the Philadelphia banks as of June 30, 1960.

Q. Did you prepare this paper?

A. I did not.

Q. Who prepared it?

A. The Justice Department.

Q. And handed it to you?

A. That's correct.

Q. Did you not say a few minutes ago in answer to one of Mr. Reycraft's questions that you have not studied the situation in Philadelphia?

A. I have not. I have studied or I know the facts in connection with this. I have had it for over two weeks as to the number of banks that are here and the number of banks that are in the contiguous counties and the amount of——

In other words, the total amount of assets in the Philadelphia banks as of that date was $4,689,000,000.

Q. Let me ask you this:

If a person wanted to borrow $50,000, how many choices of commercial banks in Philadelphia would be have?

A. $50,000?

[fol. 1232] Q. Yes.

A. I would say he'd have a good many choices in that. $50,000 would only mean a $500,000 capital, and I think they'd all have that much.

Q. Are you sure of that?

A. No, I am not sure of it. I don't think there is any bank in Philadelphia that would have a capital less than $500,000, though, including their surplus.

Q. Well, suppose somebody wanted to borrow a million dollars, how many choices would he have in Philadelphia?

A. I would say about possibly four or five.

Q. You are just guessing on this?

A. Maybe I can tell you.

Q. You mean you can tell me from this sheet of figures that the Department of Justice has furnished you?

A. Yes, but——

Q. Not as a result of your own study?

A. I asked for these figures when they told me that I was going to be called as a witness. I certainly didn't solicit this job in any respect.

Q. I am sure you didn't.

A. Because I was asked to come as an expert witness, which I declined; and when you are subpoenaed, why, of course, you do want to know something about the answers, and naturally I asked for these data.

[fol. 1233] Q. Why did you decline to be an expert witness, Mr. Brumbaugh?

A. In the first place, I declined on the basis that I didn't think I was qualified to be an expert witness unless I had at least three to six months' time to prepare my testimony.

Q. Have you had three to six months' time to prepare your testimony?

A. I have not.

Q. So you do not consider yourself qualified to testify as an expert as to this merger?

A. That's correct.

Mr. Littleton: I object to any opinion being expressed by this witness.

Mr. Reycraft: Your Honor, I submit that Mr. Brumbaugh is being unduly modest in relation to the experience that he has had.

Mr. Littleton: I suggest he is being unduly frank and honest.

Mr. Reycraft: Your Honor, I submit that his background——

Mr. Littleton: As he usually is.

Mr. Reycraft: I submit that his background speaks for [fo. 1234] itself.

The Court: Mr. Brumbaugh is very honest. He said he is "agin them all." He started out in his testimony with that.

I am going to let him testify. I am going to overrule your objection.

By the Court:

Q. Didn't you say that at the outset?

A. That I am against——

Q. That you are generally against any mergers or any branch banking?

A. Any further—I think there should be a moratorium declared on mergers in the United States because I think it's gone far enough.

The Court: You can't ask a franker expression of opinion than that, so I am going to let him testify.

Mr. Littleton: May I ask one or two more questions?

The Court: Surely.

By Mr. Littleton:

Q. You spoke of being a member of a number of committees of the American Bankers' Association. Are you a member of the Independent Bankers' Association?

A. I am a past-president of the Independent Bankers' [fol. 1235] Association.

Q. You are a past-president?

A. Yes, sir.

Q. Are you a member of any of their committees now?

A. By reason of being a past-president I am on the executive committee.

Q. And what is the Independent Bankers' Association?

A. The Independent Bankers' Association is made up of over 6,000 independent banks in the United States, which takes in almost half of the banks.

It is an organization made up of not only unit banks, but the smaller banks in the country; and it was brought about, I think, to just more or less stop something like is going on here in the way of mergers and to prevent a monopoly in banking.

Q. In other words, it is an association to oppose mergers?

A. Not to oppose mergers only; to oppose branch banks and opposition against holding companies which goes and buys some banks.

Q. Among the other things, it is against mergers, is it not?

A. Against mergers?

Q. Yes.

A. It's against mergers, where it brings about any possible chance of a monopoly, yes, but for small mergers they have raised no objection.

[fol. 1236] Q. You mean if any of the individual members want to merge their banks, that's all right; but if anybody else wants to merge, the independent bankers are against it?

A. Well, knowing the organization as I do, I would say that that is not correct.

Q. They are against mergers, they are against branch banking; is that correct?

A. They certainly don't favor any particular individuals, as far as they are concerned, and say that because you are a member of our organization we will raise no objection. That is not correct.

Mr. Littleton: All right.

[fol. 1237] Cross-examination.

By Mr. Littleton:

Q. Is the Philadelphia National Bank, in your opinion, an independent bank, so far as you know?

A. I would say definitely not an independent bank if they have any branches of any size or any number.

Q. Is it an independent bank?

A. Philadelphia National Bank?

Q. So far as you know, yes.

A. No.

Q. What is it dependent on?

A. Well, it is dependent on its branches as well as its home office. I would say an independent bank is a bank like First National Bank of Chicago or the Republic National Bank of Dallas, Texas, in states where they don't permit branch banking.

Q. Any bank that has a branch is not an independent bank; is that it?

A. Not taking it from the membership of the Independent Bankers Association, no, because they have members who have branch banks.

Q. How many branches does the First National Bank of Claysburg, that is your bank, have?

A. One.

Q. Are you an independent bank?

A. I am not, not absolutely an independent bank. In [fol. 1238] our county we used to have 17 banks. We are down to three now, through this merger route, that are independent.

Q. Even though you have one branch, your bank is an independent bank?

A. You couldn't consider it absolutely an independent or unit bank, no.

Q. What is the population of Claysburg?

A. The population of Claysburg, the county which we serve, is an incorporated vicinity. It serves about 3000 people.

Q. How far is Claysburg from Philadelphia?

A. 218 miles approximately.

By Mr. Price:

Q. Were you Secretary of Banking when the Girard and Corn Exchange merged?

A. I don't believe. I do not know the date that that took place, so I wouldn't want to say definitely.

Q. What was the last merger that took place in Philadelphia which occurred during your term of office?

A. I don't recall any that took place during my term of office.

Q. So that while you were Secretary of Banking there were no mergers of any Philadelphia banks which you had occasion to consider or approve or disapprove?

[fol. 1239] Just to my knowledge now, no. I would have to check into the record on that. I would say that I would have approved them if they were justified--mergers—if I felt that they were. At that time the mergers had not been nearly as prominent as they are right now. For instance, we are down half in banks in the last fifteen years through mergers and branches.

Q. These 17 banks that were in Claysburg——

A. No, in Blair County.

Q. —in Blair County, which are now down to three——

A. Three unit banks.

Q. How many banking facilities are there in the county?

A. We have got the same number.

Q. But they are three banks?

A. Three unit banks.

Q. Are they in a stronger position than the 17 separate banks were before?

A. I don't think they are in a stronger position now.

Q. You don't think they are any better?

A. No. They paid well for these banks. They paid $400 and $500 a share for banks that were started from small capital.

Q. You don't think that was wise?

A. I think it was wise on the part of the bank that [fol. 1240] bought them, yes. I don't blame them for it. It is only natural, you know. You want to broaden out as much as you can. I don't think those things—where the laws permit it, I don't see how you are going to prevent it, as far as stopping it is concerned.

Q. Then you want to have the law changed to prevent mergers of that sort?

A. I think we should have laws to prevent it going too far, because I don't think it is for the best interests of the economy of the nation or the country, and I don't think it will serve the people as good as they are being served by the smaller banks in the smaller communities.

Q. Have the people in Blair County got any better or any worse service as a result of the merger?

A. I don't think it has changed it much yet, but I do know that once they get control of practically all of them, I don't think the service is going to be as good. I can relate a little incident to you, if you would like to hear it, that happened to me the other day just before I came down here.

Q. I am asking you about Blair County and the change that has taken place as the result of an original number of 17 banks and their contraction into three. Has the service of the community been improved or worsened by that [fol. 1241] change?

A. Can I use this illustration to bring about the answer to that question?

Q. Can you answer my question first? Has it or has it not?

A. Has it been improved?

Q. Improved or worsened?

A. I don't think it has been worsened. I think it is just about the same. I don't think it has been improved.

Q. Over what period of time did that change take place?

A. In about the last ten years or less than that, you might say.

Q. After you left the Banking Department?

A. After I left the Banking Department, yes.

By the Court:

Q. When did you leave the Banking Department in 1951, Mr. Brumbaugh?

A. In January.

By Mr. Price:

Q. Wasn't it 1949? Wasn't Mr. Campbell there between 1949 and 1951?

A. No, I think you will find it is between 1950 and 1951, in January, I left. I left at the end of Jim Duff's adminis-
[fol. 1242] tration.

Q. What year was that?

A. As I understand it, he went out in 1950. I stayed over for about two months after that.

Q. Two months in the year 1950 or the year 1951?

A. 1951.

Q. In 1951?

A. Yes.

Q. Now, as far as Philadelphia is concerned, have you made an examination or study of the activities of the Girard and the Philadelphia National Bank lately?

A. I have not.

Q. Are you familiar with them at all, except as a member of the public able to read the newspapers?

A. I know the personnel personally. I have a high regard for all of them. They are very able individuals, no question about it. That is one reason why I can't understand why they want to bring about a merger, because on the FDIC coverage of deposits they have 20,000 in the two banks. The opportunity to become president of the bank is just double what it would be right now with one bank if you merged them. I think the employees down the line would resent it. I believe I would.

Q. Do you consider that an important factor in determin-
[fol. 1243] ing whether they should merge?

A. Well, it is important if you believe in people who will take an interest in banking business, that if they have an inclination to someday be president of the bank, it would be twice as easy to become president of one of the two banks than it would be if they merged. I don't think there is any question about that.

Q. But so far as business activities and needs and demands on either of these two banks, you have no information, have you?

A. No, I have no information from the inside, none whatever, no, I couldn't have.

Q. And because of your failure or inability in the time available to get information of that sort, you feel that you are unable to express an opinion as to the desirability of this merger; is that right?

A. Well, I, of course, have expressed in generalities that as far as I am concerned, if I would be in either one of the banks, knowing the personnel and the ability of the group to manage their own affairs, it would seem to me I would want to continue as is. I can't see much to be gained by a merger, even from a large loaning standpoint, because if they are competing with New York, one bank up there has $7 billion. Take all the banks in Philadelphia and con- [fol. 1244] solidate them and you couldn't compete with them. I can't see that that is a particular argument in that respect.

Q. But you have to go to New York to get more than $8 million in one loan today, don't you?

A. These banks have their connections in New York, don't they, with their corresponding banks. Couldn't they get participations the same as we little banks up in the country get participation with these banks?

Q. So you think that the larger banks in Philadelphia should be compared with the little banks up in the country when they have demands in excess of the lending limits?

A. I think we have the same problems, only on a much smaller scale.

Q. You consider that comparable, d ou?

A. I would say so.

Mr. Price: That is all.

By Mr. Littleton:

Q. Do I understand you are just generally against mergers?

A. I am against mergers as far as mergers are being brought about just to get larger banks. I have no objections to mergers where mergers are brought about for the purpose of taking over an institution that is in financial diffi-
[fol. 1245] culty, or anything in that respect, but somewhere along the line, if we don't stop this merger situation, in place of having 400 and some banks that we have now in Philadelphia, or 500, I guess it is, where we are down from 960 some within the last short time, we are going to go down to 250 or possibly 50 and later on to 5 or 10.

Q. Let me put it this way: Do I understand that this expression of your opinion so far as this particular merger is concerned is simply an expression in particular of your general opinion about mergers?

A. I would say definitely it is. It is based on the fact that I think they have gone too far.

Q. Let me ask you about your own situation. You have been in the First National Bank of Claysburg for the last ten years?

A. I have been in the banking business—I just finished my 50th year this year. In Claysburg I have been about 40 years.

Q. Let us address ourselves to the last ten years, if you please. At the end of 1951 the total assets of the Claysburg Bank were about $3,420,000?

A. I think that is about right.

Q. Today they are what?

A. About $7 million, a little over $7 million.

[fol. 1246] Q. In other words, that is an increase of over a hundred per cent in that time?

A. That is about right.

Q. And the deposits in 1951 were about $2,981,000; is that right?

A. I couldn't tell you accurately because I just don't——

Q. Or about that?

A. About that, I would say, yes.

Q. And what are they today?

A. Well, the deposits would be about $6,200,000.

Q. In other words, an increase in something over 105 per cent?

A. That is right.

Q. And at the end of 1951 the total loans were $987,000, were they not?

A. That is about right.

Q. And today they are what?

A. They are about 3 million, pretty close to $3,150,000.

Q. About a 225 per cent increase?

A. That is correct.

Q. And your lending limit at the end of December, 1951, was $30,000, wasn't it?

A. That is right.

[fol. 1247] Q. Today your lending limit is what?

A. 50.

Q. That is an increase of about 66⅔ per cent?

A. That is about right, yes, sir.

Redirect examination

By Mr. Reycraft:

Q. Mr. Brumbaugh, you were asked during the cross-examination questions concerning the branch which your bank has. Will you describe the manner in which your bank obtained this branch.

A. There were no banking facilities in this particular community. It was on a direct route to Altoona, in a community in which we had quite a few depositors, and we asked for the privilege of placing a branch there or establishing a unit bank, and the Comptroller advised us that he felt there wasn't sufficient business there to justify a unit bank, but he would give us the privilege for a branch bank, which we established.

Q. So that you did not obtain this branch by acquisition or merger?

A. No. Understand, I don't want to tell you anything here but what is absolutely correct. If I had an opportunity to merge a bank in my community that we felt was going [fol. 1248] to go to a larger institution and we would lose business by it, I would also make an attempt to take over that institution, for the simple reason that it would at least prevent more or less of a monopoly in that particular

community, because that is what we are trying, I think, to avoid, is to have larger banks take up all these here smaller banks and then later on the still larger banks will want to cover the whole state and take them in.

I can tell you a little incident, if you want to hear it, about part of the Girard Trust Company institution when I was Secretary of Banking. That is the banks down in Delaware County.

Q. Will you please relate that.

A. I was called down here and even told by the Governor to discourage any branch banking going out in Delaware County. This man, Wilkinson, at that time was very anxious to preserve the banks out in that section and not permit Philadelphia to move out. Later on, after he got them all, he moved into Philadelphia and sold all his banks out, So you never know what happens in this here acquisition of banks. You fight to keep the little fellow, and then he turns around and after he gets to be pretty big he becomes a party to the same thing that he tried to prevent.

[fol. 1249] Q. You referred during your testimony earlier to being a party to it or a victim of it. Is that what you have in mind?

A. I think that you have to, where the State laws permit it, I think you do. I definitely think you do. I am not here trying to criticize or condemn these two groups for the effort they are making to bring about this merger. I am not criticizing them whatever. I am criticizing the fact that somewhere along the line the supervising agencies, or by law, it will have to be stopped or it will engulf the whole nation.

Q. Mr. Brumbaugh, in answering one of the questions that you were asked by I believe Mr. Price, you said you wished to illustrate your answer by relating an incident which occurred in Blair County. Will you give that incident.

A. If I am permitted, I intended to at that time, I had a gentleman, when a small bank was taken over only five miles from us, and at that time we didn't like to see it take place, and I talked to him about it and he said, "Well, my position is this: I run a large orchard"——

Mr. Price: I object to what his position was. We are [fol. 1250] getting too far afield.

Mr. Reycraft: We are getting a conversation which was reported to Mr. Brumbaugh, on the basis of which he has an opinion.

The Witness: This gentleman came over to my bank the other day and wanted to make a loan.

I said, "It hasn't been so long ago that you came over there and told me that you were in favor of the Altoona bank, the larger bank, taking you over just because they had a larger loaning capacity, and under the circumstance that you would be able to get the credit that you needed. Now you are over here getting a loan." I said, "What took place?"

He said, "I have changed my mind a little about that." He says, "They are more interested in taking care of the interest in the larger centers than they are in the smaller centers where they have established these branches."

So that is an incident that just occurred this week.

By the Court:

Q. That is a country condition, isn't it?

A. That is right.

Q. The banks at Broad and Chestnut wouldn't be likely [fol. 1251] to be involved in an orchard, would they?

A. They would if they had branches out in the rural districts. This is a branch from the Altoona bank. That is the largest city in our community.

By Mr. Reycraft:

Q. Mr. Brumbaugh, you referred earlier to the number of banks in Philadelphia as being hundreds, and I believe you meant Pennsylvania; is that correct?

A. 254, I believe, isn't there, banks in Philadelphia? Is that correct, 254?

Q. That is Pennsylvania.

A. Wait till I see. I have it here. I think there is 284 banking offices in Philadelphia County and contiguous counties. Am I correct in that?

Q. I asked you earlier, Mr. Brumbaugh, whether you had an opinion with respect to the effect on banking competition in Philadelphia of the proposed merger of the Philadelphia National Bank and the Girard Trust Corn Ex-

change Bank, and you said you did. Will you state that opinion.

A. The only reason I would say, as far as my opinion of that would be concerned, it would give them larger loaning capacity, and that would certainly be in competition with the banks that their capital wouldn't justify loans of the same size.

[fol. 1252] Q. Do you have any opinion with respect to what effect it might have on other mergers in Philadelphia?

Mr. Price: Objected to.

The Court: Sustained.

By Mr. Reycraft:

Q. Do you have an opinion with respect to the effect it would have on depositors as it relates to their coverage by the Federal Deposit Insurance Corporation?

A. I think I did answer that or state that a while ago. It would naturally reduce the coverage that they have now. One bank has 10; the other has 10. That would be $20,000. The combination of banks would only have the same $10,000 on deposits up to that amount. That is the only way it would affect it.

By the Court:

Q. You mean there would be one less bank and therefore one less coverage?

A. That is right.

Q. Mathematically?

A. Yes.

By Mr. Reycraft:

Q. Now, Mr. Brumbaugh, referring to the information which you have examined with respect to the capital of Philadelphia banks, will you state how much of a loan a [fol. 1253] local company could get by going to all the Philadelphia banks.

A. I will have to refer to me——

The Court: You mean go into the 17 present Philadelphia banks?

Mr. Reycraft: Yes, sir.

The Court: You tell me.

Mr. Reveraft: I believe it is about $45 million.

Mr. Littleton: I think it is 49.

The Court: All right. That is a mathematical calculation too. That means going through 17 Boards of Directors and 17 sets of lawyers.

The Witness: I won't refer to those figures, then. I have them here but I won't refer to them.

The Court: While you gentlemen are conferring, I would like to ask Mr. Brumbaugh a couple of questions.

By the Court:

Q. When you talk about monopoly, what do you mean? What is your meaning of monopoly, Mr. Brumbaugh?

A. I think it is detrimental to the economy of the country. I think it is more advantageous to have a large number of banks in the country, smaller banks, for more than [fol. 1254] one reason. They serve best in a community in which the individuals of that community own the bank, and if another bank takes them over, that absentee ownership doesn't have the interest in that community, naturally, that they do in the community in which their home office is, and a monopoly is brought about.

Q. What is a monopoly? Don't tell me it is brought about. What is a monopoly? That is what I am interested in.

A. When capital gets in the hands of too few people.

Q. Who are too few people?

A. That is hard to describe, but it is pretty bad. If you want a few banks to handle all the credit of the people of the nation, it certainly isn't for the best interests of the country, and experience has taught me, during the last depression, when the smaller banks started to fail, there was very little said about it, but when the larger banks started to fail, the result was that they had to immediately take some action. I can tell you the figures that the Reconstruction Finance Corporation had to put up to save the banks at that time, and among them were some of the very large banks. There was over $3,200,000,000.

Q. And even the insurance company that I then represented had to be saved. I went through that too. I know the [fol. 1255] problems there, but we are talking in present-

day context. At least two or three times in your testimony you said you were against mergers to prevent monopoly. I would just like to get your definition of what you personally mean by monopoly.

A. I would think that once you get the banks of the State of Pennsylvania, possibly four or five controlling the whole state, then you have a monopoly.

Q. I would agree with you.

A. And that's the thing that you have to stop somewhere along the line.

Q. How many banks are there in Pennsylvania now, unit banks, exclusive of branches?

A. I think I can give you that. There were 526 in 1959, the last figures I have. In 1920 there were 1567. In 1945 there were 967. In other words, from 1945 to 1959—since then we lost some more—we lost 441 unit banks that went into other banks by merger.

Q. Well, is there a monopoly in Pennsylvania today?

A. I don't think it is here yet, no, but I think it is in the making.

Q. You mean provided there is a snowballing of mergers?

A. That is correct.

[fol. 1256] Q. Would the difference between, say, 525 and 524 create a monopoly in Pennsylvania?

A. No, but it is a trend in the right direction.

Q. It is a trend in the wrong direction?

A. It is a trend in the wrong direction, yes, to bring it about.

Q. Would you say that it would create a monopoly if one bank happened to merge with another? Assume there are 17 commercial banks in Philadelphia and there would be 16, would that create a monopoly?

A. I would say not at the present time, but, as I say, it is a move in that direction.

Yesterday I talked to two gentlemen in here that were telling me about several mergers that are pending right now in addition in Pennsylvania, and there has been quite a few in the last couple of years. However, if you continue it, you are going to certainly develop into a monopoly in banking.

Q. One won't do it but a continuation of the trend would do it?

A. That is correct, yes.

The Court: We will take a 10-minute recess at this point.

(A 10-minute recess was taken at 11:05 A.M.)

[fol. 1257] By Mr. Reycraft:

Q. Mr. Brumbaugh, before the recess you indicated some familiarity, I believe, with the term "monopoly."

Do you have any views, or do you have any familiarity with the phrase "tendency to monopoly"?

A. Tendency to monopoly?

Q. Yes, sir.

A. Well, I would say definitely yes, because monopoly is not brought about overnight. They are brought about gradually and the tendency of monopolies, I think, are brought about by just what's going on right now in the banking world, or in the banks of Pennsylvania and the nation as a whole, except in the states where they don't permit branch banking.

Q. You testified earlier with respect to the reduction in number of banks from 17 to 16, and I believe you indicated that that, standing alone, would not create a monopoly.

In your opinion, does the size of the banks involved have any bearing on your answer?

A. You mean does the size of the bank have any bearing on my answer?

Q. In other words, if the 17 banks that you were asked about, the two merging are among the largest of the 17, does this have any bearing upon the answer that you gave?

[fol. 1258] A. I would say it would to a certain extent, yes.

Q. And would you explain to what extent?

A. Well, the extent that it brings about not only the present merger, but it also will, no doubt, bring about additional mergers to meet the size of this particular institution.

Q. Is it your opinion that other banks will attempt to meet the size of the merging bank?

Mr. Price: Objected to.

Mr. Litteton: Objected to.

The Court: Overruled.

The Witness: I would think it would, definitely. I would be disappointed if it didn't.

By the Court:

Q. You would be disappointed?

A. I would be disappointed if it didn't bring about demand on the part of the other banks to bring about mergers to equal the size of this one in Philadelphia.

By Mr. Reycraft:

Q. Why do you say that, Mr. Brumbaugh?

A. Well, it's natural that a bank that once has the advantage of being the largest bank in a community wants to keep that position, and possibly that has something to do with this present merger because not too very long ago the [fol. 1359] Philadelphia National Bank was the largest bank in Philadelphia. Now the First Pennsylvania Company is the largest bank.

Q. Do you have any knowledge as to what would be the results if this merger would be approved, with respect to the relative size?

A. I think—I think it would bring about demand for more mergers.

Mr. Littleton: He said relative size, Mr. Brumbaugh.

The Witness: Oh, well, relative in size similar to this.

By Mr. Reycraft:

Q. Would the combined bank be bigger than the First Pennsylvania?

A. This combination?

Q. Yes.

A. Yes.

Q. Mr. Brumbaugh, you have also indicated some familiarity with the management and business of the Philadelphia National Bank and the Girard Trust Corn Exchange Bank.

Will you express your opinion or state whether you have an opinion with respect to the quality of these two banks

as banking institutions, beginning with the Philadelphia [fol. 1260] National Bank?

A. Well, from my observation and my personal acquaintance with the officers of these banks, I think they are of the highest types. I don't think they could be improved upon, either bank. I think they are both excellent, in excellent hands.

Q. Referring to the Philadelphia National Bank, is this your opinion with respect to the management of the bank?

A. That would be my opinion, not from—I have never had the privilege of looking at the inside of the bank, but I would think it was very capably managed, that it is an excellent bank.

Q. And with respect to the soundness of the Philadelphia National Bank as a Philadelphia institution?

A. Yes, sir, I think it's a very sound institution.

Q. And with respect to its future possibilities as a commercial bank?

A. I think it has a great future as is, without the merging.

Q. What is your opinion with respect to the management of the Girard Trust Corn Exchange Bank?

A. The same thing exactly. It's well managed.

Q. And what is your opinion with respect to the financial condition of the Girard Trust Corn Exchange Bank?

A. According to their statement, they are both in excellent condition.

[fol. 1261] Q. What is your opinion with respect to the future prospects of the Girard Trust Corn Exchange Bank?

A. I think it's very good, too. I think both of them have excellent opportunities as they stand right now to increase in size.

Q. You testified earlier concerning conditions under which you thought a merger might be desirable for the community; is that correct?

Mr. Littleton: Which community?

Mr. Reycraft: For a community, on the community level.

The Witness: It would be desirable, in my opinion, where there were, say, several banks in the community or in the city wherever they operate; and if one bank got into

financial difficulties, possibly through poor management, bad loans, it would be advantageous to merge that bank with the other bank and save it.

By Mr. Reycraft:

Q. On the basis of your knowledge, do any of these considerations apply to either the Philadelphia National Bank or the Girard Trust Corn Exchange Bank?

A. No.

Mr. Littleton: May I hear that question?

[fol. 1262] (The pending question was repeated by the reporter as follows:

"Q. On the basis of your knowledge, do any of these considerations apply to either the Philadelphia National Bank or the Girard Trust Corn Exchange Bank?")

Mr. Littleton: If you know.

Mr. Reycraft: He has already said that they didn't.

The Witness: The argument usually to take over these smaller banks in the smaller communities has been no continuity of management; and besides that there, there the men may have gotten to an age that they are not no longer able to continue in the capacity of management themselves, and the results of it is that the banks are sold out on that basis—just because of the lack of management.

I couldn't say that they are——

By the Court:

Q. In other words, they had no depth of management?

A. Pardon me?

Q. They had no depth of management and when the boys got too old, the bank went down?

A. The bank went down, with the results was that the argument was that that was the reason for taking the bank over and merging; but you could not say that in this par-

[fol. 1263] ticular instance.

Q. No, but you have talked about that.

Isn't it a fact that many country banks are relatively owned by one person or one or two persons; that they just hang on too long and the bank goes down?

A. I think that's true; but my experience has been that the banks that take over, they continue the management and reduce them to branch managers rather than to put new management in. Practically every bank in Blair County which was taken over, the same management is there.

Q. Yes, but under supervision?

A. Well, under certain supervision, yes.

The Court: Yes.

By Mr. Reycraft:

Q. Mr. Brumbaugh, would it be a fair summary of your conclusions that a merger should be permitted only when there is an extraordinary reason of the type that you described to justify it?

A. If there isn't some laws enacted to prevent this merger situation from getting out of control or unless the supervising agencies prevent it (which they have the power to do), I think that there is no question about it getting out of control and causing a lot of trouble.

[fol. 1264] Q. In your opinion, have the supervisory agencies exercised sufficient control in that area?

Mr. Littleton: Objected to.

The Court: Sustained.

By Mr. Reycraft:

Q. You testified, Mr. Brumbaugh, with respect to the functions performed by a branch manager just a few moments ago.

In your opinion is a community better served by having an executive of an independent bank or the same person as a branch-office manager of a bank in perhaps even the same area?

Mr. Littleton: What community?

Mr. Reycraft: In the community, in your own community.

The Witness: Well, there would be no question in my opinion but what the public could be better served by a bank that had authority to grant loans; and so forth is right in that community, rather than in a larger center,

which takes time to even find out whether they are going to grant the credit.

Naturally, the president of a bank in a small community is very anxious to develop that community, and it certainly would be much to the advantage to have the independently-owned bank operate in that community than it would be absentee ownership from a large center.

[fol. 1265] I think it would give better service, I think it could serve the public better.

By Mr. Reycraft:

Q. You think that the same man performing the function of supervising a particular banking unit would do a better or a worse job as the president of a bank or as an official of a branch office of a larger bank?

Mr. Littleton: Are you talking about the county in which Mr. Brumbaugh operates?

Mr. Reycraft: Yes.

The Witness: I would think the president of the bank or the executive officers in that bank could do a better job than if they were subordinated to branch manager and didn't have the authority to make the decisions.

By Mr. Reycraft:

Q. In your opinion, is the same conclusion applicable throughout Pennsylvania?

A. I would think so.

Mr. Littleton: Objected to unless he knows what the conditions are in each of the places he is talking about.

Mr. Reycraft: Well, Your Honor, he is testifying with respect to a motivation of officials of banks and he has [fol. 1266] certainly had an opportunity during his fifty years of banking to observe a large number of banking officials.

The Court: Yes, he has. He is talking in generalities on his opinion based on his knowledge and experience. That is what he is trying to do.

He is not trying to say that there isn't a branch manager to whom has been delegated full authority. There are some such situations, I assume, but we are not talking about that. We are talking about general impressions.

By Mr. Reycraft:

Q. Would you answer the question, Mr. Brumbaugh?
A. Pardon me?

Mr. Reycraft: Would you read the question?

(The testimony was repeated by the reporter as follows:

"Q. In your opinion, is the same conclusion applicable throughout Pennsylvania?
"A. I would think so.")

The Court: That is the answer and I will let it stand.

By Mr. Reycraft:

Q. Mr. Brumbaugh, during your experience in relation to commercial banking and your knowledge of other types of [fol. 1267] financial institutions, have you had an opportunity to observe the opportunities which are available to larger business to obtain financing?

The Court: Read that question back.

(The pending question was repeated by the reporter.)

The Witness: I have had. I don't think, if the corporate individual or whatever it is, has the proper financial statement and is doing the type of business that shows a profit, that the matter of securing loans is a very serious problem. I think they can be secured today most anywhere.

By Mr. Reycraft:

Q. As the business increases in size, is there any change in the types of financial institutions a business has available for financing?
A. I would think not.
Q. Do you have any knowledge as to the availability of stock issues, for example?

Mr. Littleton: What?
Mr. Reycraft: Stock.
The Witness: The availability of stocks?

[fol. 1268] By Mr. Reycraft:

Q. The ability to sell stock to raise capital.

A. Oh! Well, of course, that again would depend on the corporation that would want to sell the stocks and, of course, as to the earnings and so forth.

Do you mean common stocks, preferred stocks, or what types?

Q. Any kind, any kind.

A. Any type of stock?

Q. Which raises capital, which raises capital.

A. The problem of selling the stocks, as long as they would be approved by the Securities & Exchange Commission, if they were an unlisted stock you may have some trouble to sell stocks in the State of Pennsylvania.

Most corporations, though, of any size, the stocks are listed on either the New York Stock Exchange, the American Stock Exchange, or some of the other exchanges; and it is really no problem because they are usually sold through a broker.

A broker usually handles those transactions and it is not hard to get a broker to underwrite it.

Mr. Reycraft: Cross-examine.

[fol. 1269] Recross-examination.

By Mr. Littleton:

Q. Mr. Brumbaugh, you, of course, have no idea of what the lending limit of any manager of any branch of the Philadelphia National Bank has, do you?

A. What the lending limits are?

Q. What his authority is, what the authority of any manager of any one of the branches of the Philadelphia National Bank is?

A. No, sir.

Q. And the same with Girard Trust?

A. That's right.

Q. You have no knowledge of that?

A. No, I have no knowledge whether authority is granted or what authority they grant to them.

Q. You spoke in very laudatory terms of the gentlemen who run and manage both these banks.

In your opinion, would any one of them sign his name to an application to the Comptroller of the Currency that contained anything fraudulent or misleading?

A. I would say definitely no.

Mr. Littleton: Thank you.

Mr. Price: I have no questions.

Mr. Littleton: That's all, thank you.

[fol. 1270] Mr. Reycraft: That's all.

Mr. Reycraft: The Government calls Mr. Du Bois.

Ben Du Bois, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Reycraft:

Q. Mr. Du Bois, where do you reside?

A. Sauk Centre, Minnesota.

Q. What do you do in Sauk Centre, Minnesota?

A. I am Executive Manager of the Independent Bankers' Association, and I am also——

Q. Pardon me? Go ahead.

A. And I amsalso President of The First State Bank.

Q. How long have you been connected with The First State Bank?

A. 49 years this fall.

Q. How long have you been President of that Bank?

A. 24 years.

Q. When did you first become connected with— I believe [fol. 1271] you referred to the IBA.

Will you state what those initials stand for?

A. Independent Bankers' Association? Is that what you asked?

Q. Yes, sir.

How long have you been connected with the Independent Bankers' Association?

A. I was one of the organizers back in May of 1930. I became secretary in May of 1933; so I guess that would be 28 years that I have been active in the Association's operations.

Q. What is the Independent Bankers' Association?

A. What is it?

Q. Yes, sir.

A. It's an organization of independent banks. The purpose of the organization is to use the collective strength of the individual banks in a way that will protect their future, maintain our so-called diffuse system of independent, home-owned, home-managed banks, banks that are responsive to the needs of the respective communities.

Q. And how many——

A. It also——

Q. Go ahead, sir.

A. And also in opposition to this monopolistic trend that rears its head in different forms in different sections of the [fol. 1272] country.

Q. How many members are in the Independent Bankers' Association?

A. In our Association we have 5924. That's the number we had when I left Sauk Centre last week.

We are closely associated with the Independent Bankers' Association of the West Coast, the Twelfth Federal Reserve District; and they have a membership of a little less than 300.

So you can say between 6200 and 6300 banks that are interested in the same cause.

Q. Now, you have referred to a diffuse system of banking. Will you explain what you mean by that phrase?

A. It's the opposite of a concentrated form of banking. It's banks in the different communities, that are part and parcel of the community, organized and operated and managed by people of the community, independent of other banks; where the Board of Directors is a sovereign board, as sovereign as it can be with the legislation and regulation that affects banks, but where the decisions on matters are made at their own directors' table, and the idea is a continuation of the idea that was in the National Bank Act of '63—1863—when every bank was supposed to stand alone and on its own feet.

[fol. 1273] Q. Why do you think it is important——

The Court: Just a minute, just a minute.

By the Court:

Q. Is there any innuendo that banks other than your banks do not make their decisions at the directors' table?

Do you mean by what you said the purposes of your bank and your operations, do you mean to infer by that statement that other banks don't make their decisions at the directors' tables?

A. I will say, Your Honor, that for instance, a subsidiary of a holding company, I don't think the important decisions are made by the Board of Directors of that bank, but by the owners of the bank.

Q. Let's eliminate holding companies.

A. All right.

Q. Let's just have a bank of which the stock is not owned by a holding company. Let's take another kind of a bank, a bank that has a Board of Directors.

I just want to make sure that you didn't mean to infer that they didn't make their decisions. Do you?

A. No. Any bank, any independent bank—you asked a question, Judge, I think, if there was any bank, so I brought in these subsidiaries of holding companies.

Q. You are talking about banks whose stock is completely [fol. 1274] owned by holding companies?

A. Yes.

Q. You are talking about the West Coast Giannini operation; is that it?

A. Well, I had more reference to the holding company that operates in the Ninth Federal Reserve District, with which I am a little more familiar.

Q. That is not in this district.

A. What? That is not in this district.

Q. Do you know of any that is operating in this district?

A. No. I would assume, sir, that these banks in this state that are operating, whether they have merged or not, the head office certainly has its own Board of Directors that makes its own decisions.

The Court: All right.

By Mr. Reycraft:

Q. How many members were there in your Association, Mr. Du Bois, when it began its existence?

A. 28 members, sir.

Q. And you testified that there are 5924 now?

A. That's correct.

Q. From what area of the country are your members drawn?

A. They are drawn from the first eleven of the twelve Federal Reserve Districts, and, as I mentioned before, we [fol. 1275] have a close relationship with the West Coast organization that operates in the Twelfth District.

Q. Do you have any members in Pennsylvania?

A. We have 247 members in Pennsylvania.

Q. Mr. Du Bois, what have been your duties as executive of the Independent Bankers' Association?

A. Well, they have been very varied. I am in charge of the office, I have traveled through most of the states calling on banks, I have been in hundreds of banks and I have called on banks in the majority of the states.

I have tried to represent the Association in Washington. When we have hearings before Banking Committees, we have our executive officers in the Association in. In the early days I think I did most of the testifying between the two Banking Committees of the Senate and the House.

We have appeared in opposition to what we refer to as monopolistic intent. We were on the opposite side when the First National City Bank wanted to expand into Westchester County. The Board turned them down.

Up in our state, we have appeared a number of times when the two holding companies were trying to get—acquire additional acquisitions, new subsidiaries.

We met in Washington early this year, as I recall it, on a merger in Mississippi.

[fol. 1276] Mr. Littleton: Just a moment. Excuse me.

If Your Honor please, I question the relevancy of this and desire to object to it.

I don't know whether this is supposed to be qualification of this witness as an expert or what it is supposed to be, but it certainly doesn't have any relevance to the issue before this Court, as far as I can see.

Mr. Reycraft: The question I asked him was to describe his duties as an executive of the Association. I believe he did go beyond that question.

Mr. Littleton: He did.

By Mr. Reycraft:

Q. So, could you, Mr. Du Bois, confine your answer a little more closely to describing your specific duties as an executive of the IBA?

A. Well, I referred to the fact that we operate the office and I don't suppose I need to enlarge upon that. You know about how any office would be operated. We have a lot of correspondence, we have a lot of accounting.

In the office we have a publication, a monthly publication. I am not the editor of that; but it is an associate that operates the magazine, but it is the official mouthpiece for the organization, so I am very familiar with its operation and its content.

[fol. 1277] Q. Mr. Du Bois, do you have an opportunity to discuss banking problems with members of your Association?

A. Continuously.

Q. Is this one of the principal features of your job?

A. It is one of the very important features of the job, yes.

Q. Do you have an opportunity to discuss problems with your members in Pennsylvania?

A. On quite a number of occasions, yes, sir.

Q. What are some of the problems which you discuss with your members?

Mr. Littleton: In Pennsylvania?

Mr. Reycraft: First, generally, and then I will ask for Pennsylvania.

The Witness: Well, we are always discussing federal legislation and then, when we come down to states, we are often discussing state legislation.

We have been active in different states, either for or opposing legislation—legislation supporting, we thought was beneficial; legislation opposing, that we thought might be damaging to our type of banking.

By Mr. Reycraft:

Q. Mr. Du Bois, on the basis of your discussions with your members throughout the United States and in Pennsyl-[fol. 1278] vania, what is the most important problem that you believe confronts them?

A. The most important problem to the independent bank is naturally its survival; and if it its to survive there has got to be a check of this monopolistic trend.

This monopolistic trend, as I said before, comes through a number of devices. Mergers are now running rampant. They are attracting a great deal of our attention.

Q. What do you mean by "monopolistic trend"?

A. The Judge was asking monopoly, and I think that's hard to define. I have always thought that we had a monopoly when competition ceases to exist.

Q. In your opinion, is there a monopolistic trend when competition is reduced?

A. When it is reduced, it increases the trend toward monopoly.

Q. Are you familiar with the term "tendency to monopoly"?

A. Tentative——

Mr. Littleton: I object to that.

The Court: Sustained.

Mr. Littleton: You asked the other witness——

The Court: Sustained.

By Mr. Reycraft:

Q. Mr. Du Bois, you have testified that the monopolistic [fol. 1279] trend is an important concern of your members. Why is that an important concern of your members?

A. I don't understand. Just state that question again.

Mr. Reycraft: Yes, sir.

The Court: Read the question back.

(The pending question was repeated by the reporter.)

The Witness: Well, the trend—if the trend keeps on it will be the death of our old system of American banking.

By Mr. Reycraft:

Q. Why do you think it is important to keep the type of system that we have?

A. Because it has served the people better than any other banking system that was ever devised in this world. It is uniquely American, and it has not only built the hinter-

lands, but it has also done a great job in the metropolitan centers.

Mr. Littleton: If Your Honor please, may I ask, are we still in qualification or have we gotten to the point where you are asking his opinion as a proposed expert?

Mr. Reycraft: I consider him qualified.

Mr. Littleton: You consider him qualified?

Mr. Reycraft: Yes.

[fol. 1280] Mr. Littleton: For what purpose?

Mr. Reycraft: For the purpose of asking——

Mr. Littleton: May I ask for an offer of proof?

Mr. Reycraft: Yes. I expect to ask him further questions about the problems which confront the members of the Association which he represents, with respect to the type of problem confronting them; why they think it is a problem; what importance they attribute to bank mergers; what effect bank mergers have on the country and on the community in their opinion, on the basis of Mr. Du Bois' observations.

Mr. Littleton: I object to this on the statement of the offer of proof unless it is restricted to Philadelphia and the surrounding ten counties.

The Court: I am going to permit him to testify.

I will let you make your record in the way you see fit.

The effect of the testimony or the weight of it, when it doesn't clearly touch on the matter before me, will be for the Court.

Mr. Reycraft: Will you read the question back?

The Court: You may proceed.

Mr. Reycraft: Will you read the question back?

[fol. 1281] By Mr. Reycraft:

Q. I believe I asked you, Mr. Du Bois, what problems your members considered among the most important; and I believe you testified that——

The Court: There has been a lot of talk about monopolistic trend. Let the witness define what he means by monopolistic trend. I will ask the question.

You put on the record your definition of monopolistic trend.

The Witness: The concentration in few hands, and we are to speak on banking, Judge, I assume?

The Court: Only banking.

The Witness: The concentration in banking that has been going on in this country is what I would call a trend toward monopoly. It is fewer people controlling a greater amount of bank assets. It is a concentration of economic power that I think is particularly dangerous.

Banking—the banking business mushrooms into all types of business. We have seen these gigantic corporations outside of banking that are too big for their own good——

The Court: Let's keep it to banking.

The Witness: I just made a reference to that.

The Court: Let's keep it directly to banking.

[fol. 1282] By the Court:

Q. What did you mean by monopolistic trend and what did you mean when you say the concentration of power in a few hands?

These banks are owned by a lot of people, the stockholders. Now, are you eliminating stockholders? Are you saying that it is in the hands of bank officials or that it is in the hands of the Board of Directors?

Let's get some specific reference around here so we will understand what we are talking about.

A. I wouldn't want to eliminate stockholders, except that as a general thing stockholders in a large corporation are to quite an extent voiceless.

I assume you would not eliminate the Board of Directors. That's the sovereign board, presumably directing the management.

But if banks are reduced in number there are less Boards of Directors, less management officers to direct the banking affairs of the country.

Q. Well, we had in this country at one time a lot of independent private banks. You remember that, don't you?

A. Yes. They practically have been eliminated.

Q. They practically have been eliminated.

We also know——

[fol. 1283] A. After the Jackson era we had a bad system of banking there, when banks grew up in out-of-the-

way places and their purpose was the issue of currency more than anything else.

Q. And we know that there were many banks in many towns when there wasn't enough business for one bank.

A. Very true.

Q. So there were a lot of bank failures?

A. Very true.

Q. Are you taking all of that into consideration? Would you want that condition restored, where there are too many banks?

A. By no means. I wouldn't want to see an over-banked condition because that is just a breeder of trouble.

I think in this country now—I don't believe we have too many banks. We have had a growth in wealth, a growth in population, and the number of banks—there's 13,400-something now, when at one time I think we had 29,000, at a time when there was less people and less volume of business.

I think we are at a pretty decent point, but I'd hate to see——

Q. You want to keep it that way; you want to maintain the status quo; is that it?

A. We want, as long as it's in the proper proportion, as it [fol. 1284] is.

Q. Are you in any position to say what is the proper proportion in Philadelphia?

A. I have been pretty well educated. I have sat in this courtroom for a week.

It seems to me there has been——

Q. Wait a minute. You can answer that yes or no.

A. Yes, I think I can.

Q. Do you know how many industries have come within 20 miles of Philadelphia in the last ten years?

A. I don't know that detail, but I know that the banks in Philadelphia in the last fourteen or fifteen years have been cut down. They have been cut down from 39 to 17.

The Court: Read my question and get the answer and strike everything else.

I don't know the answer to your question.

Strike everything he said beyond the answer to my question.

Read him the question.

(The questions were repeated by the reporter as follows:

"Q. Are you in any position to say what is the proper proportion in Philadelphia?

"Q. Do you know how many industries have come [fol. 1285] within 20 miles of Philadelphia in the last ten years?")

By the Court:

Q. What is your answer to that?
A. No.

The Court: Proceed, Mr. Reycraft.

By Mr. Reycraft:

Q. Do you have an opinion, Mr. Du Bois, as to the effects of banking mergers in Philadelphia?

Mr. Littleton: Just answer yes or no.
The Witness: Yes.

By Mr. Reycraft:

Q. What it is?

Mr. Littleton: Objected to.
The Court: I will let him express it.
Objection overruled.
The Witness: I think this merger is entirely uncalled for and I think it would trigger mergers here and elsewhere.

By Mr. Reycraft:

Q. Why do you think that?
A. Well, this desire of these big bankers to always be the biggest, and the fact that the biggest bank, if this merger goes through, will be second in size, I would expect to see another merger in town.
[fol. 1286] Buf what happens here has repercussions a long ways off. It is just where are we going to stop this merger? Are we going to stop it here? Are you going to get it a little further on?

Every time one of these mergers are consummated, there seems to be an invitation for more mergers to be brought forth.

Q. Do you think that this merger will have repercussions in areas beyond Philadelphia?

A. Oh, country-wide.

Q. Why do you think this?

A. I think that those things are infective. The fact that we have had these rash of mergers—one merge begets another merger. It is an invitation to merge when they can successfully put two banks together.

Q. Do you think the size of the banks involved has any relation to that?

A. I think the size of the bank is of great importance.

Q. Why?

A. Because it is creating—it creates giants in the banking business, and in the banking business, while there is competition between the small and the large bank to an extent, it is a contest between giants and pygmies, and it's a difficult—it's a difficult question.

[fol. 1287] It is Goliath and David. The only reason that is recorded is because David did the unexpected and won.

Q. Mr. Du Bois, on the basis of your experience as president of a bank, have you had an opportunity to or have you received applications for loans beyond your loan limit?

A. Oh, yes.

Q. Have you had any difficulty accommodating those loans?

A. I don't think any decent bank ever had any. All the testimony that we have heard is that it is an easy matter; and I have never heard of any difficulty.

Q. On the basis of your own experience——

A. No trouble.

Q. —has there been any difficulty?

A. No trouble.

Q. What do you do when you get such an application?

A. We take it up with our correspondent bank. They take the portion that overruns our limit.

Q. Have you, Mr. Du Bois, ever, in your capacity in your bank, made loans which other banks were unwilling to make?

A. Time and again; and time and again the other bank has made loans that we have turned down.

I like to see a borrower at least have two chances to propose—to offer the proposal to a bank.

My judgment has been wrong many times, and I am sure [fol. 1288] the other fellow's has been offside at times, but I like to see—I like to bank in a town where there is competition; where, if I turn a man down, he may have a chance elsewhere.

Q. In your opinion, Mr. Du Bois, on the basis of your experience, what are the principal areas of competition among commercial bankers?

A. Well, commercial banks, I would say the competition between commercial banks, there is no question nowadays but that the competition for savings between savings and loan associations and commercial banks is very, very brisk.

They have a tax advantage and a nice charter that gives them a little margin.

Q. Are there other areas of competition?

A. Well, in the rural section of the country we are in competition with some of these Government agencies; but this competition, I think, is pretty decent competition and probably keeps the bank on its toes a little bit better.

Q. With respect to your competition with other banks, what form does this competition take?

A. Everything that we can think of in the dead of night.

Q. Does it include interest-rate competition?

A. Interest rates on loans; but, of course, not interest rates on our time deposits. That is set by——

[fol. 1289] Q. Does it include service?

A. Service charges? Oh, I think as a general thing the banks follow a pretty universal charge throughout the state.

Q. Does it include personal service?

A. Personal service? I have always found the best way to secure business was to make a loan that the other fellow couldn't make and set it up in such a way that it would work out successfully.

If you are loaning a man money, he's going to carry his account with you, even if you didn't insist.

By the Court:

Q. Isn't that the secret of successful banking?

A. Sir?

Q. Isn't that the secret of successful banking, to set the program up so that the man can meet it, instead of giving him impossible situations?

A. That's the way it has to be done for intelligent banking.

Q. Certainly.

A. And another thing, Judge, if I may remark, I like to see a banker have enough interest in his client so that he will try to work him out of debt and not keep him in perpetual bondage.

I think that's something that a banker should always [fol. 1290] hold in mind.

Q. That is what you would call servicing the loan?

A. Yes.

By Mr. Reycraft:

Q. Mr. Du Bois, you have testified with respect to competition with savings and loan associations.

Do commercial banks compete with savings and loan associations in any way other than the one you described?

The Court: Read that question, please.

(The pending question was repeated by the reporter.)

The Witness: Not to any extent at all.

I think sometimes on mortgage loans, house loans, there might be a little competition; but the competition is in the securing of the savings deposits.

Cross-examination.

By Mr. Littleton:

Q. Mr. Du Bois, your bank is The First State Bank of Sauk Centre, in Minnesota?

A. Yes, sir.

Q. And you don't have branches by law in Minnesota; is that correct?

A. That's correct.

Q. And Sauk Centre is how large in population?

[fol. 1291] A. 3500, about.

Q. How many banks are there?

A. Two.

Q. And how far away is Melrose?

A. Melrose? 9 miles.

Q. And how many banks are there?

A. One.

Q. Pardon me?

A. One.

Q. And in the whole State of Minnesota, what is the average number of population per bank?

A. (No response.)

Q. About 5,000, would you say?

A. No. I think about 4600 or 4700.

[fol. 1292] Q. Per bank?

A. Yes.

Q. 26?

A. 46 or 47.

Q. 46?

A. I had the figures a short time ago.

Q. And the capital of your bank is what?

A. We got 100 capital, 150 surplus, and——

Q. Just the capital first.

A. $100,000.

Q. $100,000, and that is 1 par?

A. Par?

Q. Par per share.

A. $100 a share.

Q. What is your surplus?

A. Surplus is $150,000.

Q. And all the decisions of your bank are made around the Board table?

A. Yes, sir.

Q. And your Board of Directors at the present time consists of Ben Du Bois, that is you?

A. Yes.

Q. Dave Du Bois.

A. That is my son.

[fol. 1293] Q. That is your son. J. F. Du Bois?

A. My brother.

Q. Pat Du Bois?

A. My son.

Q. And one other man, Earl E. Fox.

A. My son-in-law. I would call that a family bank, Mr. Littleton.

Q. And that is a family bank.

How much of the stock of your bank, what proportion of the stock of your bank is owned or controlled by your family?

A. All of it.

Q. And that has been so for the last 10 years?

A. No, it has been the last two years.

Q. Mr. Kels used to be a vice president?

A. Yes. Mr. Kels died a couple of years ago, and he sold his stock in the bank to my boys.

Q. But this is a personal enterprise?

A. Yes. Years ago we had a larger list of stockholders, but it has been drifting into closer control.

Q. And your total assets in the last ten years have increased from about $1,800,000 to what are they now?

A. Oh, a little short, total assets a little short of $4 million, I guess.

[fol. 1294] Q. So it is about a hundred per cent increase. And your deposits ten years ago were $1,780,000, were they not? What are they now?

A. About twice that.

Q. And your loans ten years ago were $991,000. What are they now?

A. Over twice that.

Mr. Littleton: That is all I have.

By Mr. Price:

Q. Have you a monopoly in your town?

A. No, there is another bank in our town that is owned by the First Bank Stock Corporation. We have very violent competition.

Q. So that so long as there are two banks in the town there is no monopoly, in your judgment; is that right?

A. Not in the situation that exists in that town.

Q. What?

A. Not with the situation that exists there where there is vigorous competition between the two shops.

Q. In your opinion, if you have two or more banks in the town, you won't have a monopoly, will you?

A. You won't have a monopoly unless they get together and cut out competition. As long as you have got vigorous competition between two, there is no monopoly.

[fol. 1295] Mr. Price: That is all.

Oscar Duane Hansen, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Reycraft:

Q. Would you give your full name for the record.

A. My full name is Oscar Duane Hansen.

Q. Mr. Hansen, what is your residence?

A. It is Elk Point in South Dakota. I am president of the Bank of Union County.

Q. How long have you been president of that bank, sir?

A. Since 1948. I was executive vice president prior to that.

Q. How long have you been in banking?

A. In Elk Point 18 years.

Q. Mr. Hansen, have you had any duties in connection with any associations of bankers?

A. Yes, I have.

Q. And what were they?

A. One is a member of the Executive Council of the Independent Bankers Association since 1949 to date.

Q. Did you ever have any other position with that association?

A. Yes, I had.

[fol. 1296] Q. What was it?

A. I was president of the association beginning in 1960 and ending in April of this year.

Q. Has your association sponsored any training or educational activities for its members?

A. Yes, we have sponsored a senior bank officers seminar

at Cambridge through the head of the School of Business at Harvard University.

Q. Mr. Hansen, have you had any positions with your state involving banking?

A. Yes, I have.

Q. What was it?

A. I was a member of the South Dakota State Banking Commission beginning in 1951 and for a six-year period ending in 1957.

Q. And what were your duties?

A. In our state the three-man commission have, among their duties, the granting of bank charters and assisting the superintendent of banks in supervision, particularly in areas where there are difficulties of any kind.

Q. Are you referring to financial soundness of banks among those difficulties?

A. Yes.

Q. And did you have the duty of passing upon these problems?

[fol. 1297] Q. Have you had any other duties in connection with the American Bankers Association?

A. Very minor. I was a delegate once or twice to their national convention, to the nominating delegation.

Q. Have you had any duties, other duties, in connection with your state?

A. Yes, I have. I served on the State Board or Advisory Council of the Small Business Administration for a period of eight years ending in 1960.

Q. What were your duties as a member of the Board?

A. The meetings were held at the call of the supervisor for the district, and my duty was, with others, to advise particularly in regard to loans in the locality nearest to my county and bank.

Q. You had an opportunity to become familiar with the problems of small business in obtaining loans?

A. Yes.

Q. Will you describe the functions of a commercial bank from your standpoint as a bank executive.

A. Well, they are the business, I think, primarily of supplying credit needs and the distribution of money through commercial accounts and other personal accounts. I would say those are the principal duties. Of course, creation of

money, as has been stated, through the granting of loans [fol. 1298] and the sundry other services, including advisory services to the clientele of your bank in matters of investment, and so forth.

Q. Do commercial banks perform any functions different from savings and loan associations?

A. Yes, they do.

Q. And what are they?

A. Well, they are entirely different in the sense that they receive deposits, both demand and time, and certificates of indebtedness, whereas savings and loan associations are an organization that sells shares for the participation in long-term loans.

Q. Mortgage loans?

A. Yes.

Q. Do other financial institutions offer commercial and industrial loans, to your knowledge?

A. Well, not in the sense that—if you eliminate private lending companies and finance companies, I would say no.

Q. Well, do personal finance companies offer commercial and industrial loans?

A. In a very limited way only.

Q. On the basis of your knowledge as a banker, is it practical for small or medium sized business to depend on [fol. 1299] personal finance companies for commercial and industrial loans?

A. No, it is not.

Q. In your opinion, could financial institutions of this type perform the function of a commercial bank?

A. They could not under their present mode of operation.

Q. And could a savings and loan association perform the function of a commercial bank?

A. No, they could not.

Q. Could a mutual savings bank perform the function of a commercial bank?

A. We have no mutual savings banks in our part of the nation. I think to a limited extent only, in that they do not participate in the transfer of money. They could perhaps, to some extent, in the loan activities.

Q. Do you know what kind of loan activities they specialize in?

A. No, I do not.

Q. Mr. Hansen, as president of the Independent Bankers Association did you have an opportunity to discuss problems of bankers with your members?

A. Yes, I did.

Q. And what are some of the problems which were brought to your attention during the time that you were president?

[fol. 1300] A. The problems, I would say, that were most frequently brought to my attention have been mentioned here before, and this is the various means of decimating unit banks by various routes—branching, merging, and holding company. That would be, I would say, a leading problem. Another quite pertinent problem that has been before the attention of my office during the past year is that of taxation and the different approach of taxation to commercial banks as compared to other financial institutions.

Q. With respect to the first category of problems you referred to, were you informed as to why these matters were matters of concern to your members?

A. Yes.

Q. Why?

A. In a great many areas of the nation bankers fear the eventual loss of their position as unit banks because of the encroachment of mergers. They are very much concerned about that.

Q. Why are they concerned?

A. They watch the diminishing of the unit banks in the various states where these mergers are going on, and it becomes a matter of question as to their survival in perpetuity.

Q. Is it a question of their survival as banking units? [fol. 1301] Is that what you are referring to?

A. As independent banking units, yes.

Mr. Littleton: If Your Honor please, may I interpose an objection here to this line of examination, and may it be a continuing objection to anything that does not relate to the situation which is presently before the Court?

The Court: You may have an exception. Proceed.

And that is to the whole line.

By Mr. Reycraft:

Q. Mr. Hansen, are you making a distinction between the survival as an independent bank or a branch bank?

A. I beg your pardon?

Q. You indicated earlier that concern had been expressed toward survival of banks. Are you indicating banks go out of existence? Are you indicating that or that they have become branches?

A. That they have become branches and perhaps continue in the locality but not as a unit bank.

Q. Why is this a matter of concern to your members?

A. I would speak in answer to that from the viewpoint of a managing officer of a small bank and as one who probably won't be in charge of the bank a great many more [fol. 1302] years, because of my age, but I am still concerned. I would like to see this institution continued as a home-owned unit bank rather than to become a part of a vast chain of banks.

Q. Why do you think this is important?

A. I believe it is important, first, to the people in my community, and also the people who have made banking their career.

Q. Why do you think it is important to the people in your community?

A. I think they would lose some of the benefit of direct touch with the actual ownership of the bank in their community. I believe that bank is more concerned about the welfare of the community because it is locally owned.

Q. Why do you think it is important from the standpoint of management?

A. I believe that it is important from that standpoint because management, this is, top management, dislikes the idea of becoming part of a vast concern. They would rather be in control of the bank locally on their own. I think that is just human nature.

Mr. Reycraft: All right. Thank you, Mr. Hansen.

[fol. 1303] Cross-examination.

By Mr. Littleton:

Q. Mr. Hansen, when did you cease to be president of the Independent Bankers Association?

A. In April of this year, sir.

Q. And you and Mr. DuBois and your association were very active in Congress, were you not, in getting passed the act under which the Philadelphia National and Girard Trust are endeavoring to merge?

A. Yes.

Q. Had your association taken any official or formal position on this particular merger?

A. No, I believe not. The position they have taken, sir, has been certainly against this merger so far as it applies to mergers in general.

Q. Well, I am not sure I know what that means. At any meeting of the association or at any committee of the association was any formal action taken by this association against this merger of the Philadelphia National and the Girard Trust Corn Exchange Bank?

A. I believe not, although it has been discussed a good deal among officers of the association.

Q. There was conversation but no formal action?

A. No formal action, to my knowledge.

[fol. 1304] Q. You spoke at the last convention of your association, did you not?

A. Yes, I did.

Q. You said:

> "A bill requiring Federal approval for mergers and consolidation of banks was adopted by the last session of the Congress. The Independent Bankers Association was instrumental in strengthening the bill to require consultation with the Justice Department by whatever Federal bank supervisory agency has supervision over bank mergers."

did you not?

A. Yes. Finish my statement.

Q. A little further you said, did you not:

"Our association is cooperating closely with the Department of Justice because of the conviction of your officers and Executive Board that this Federal agency's activities will have a deterring effect on the mergers rush."

You said that!

A. Yes, sir, I said that.

Q. And is your appearance here part of that cooperation that you are giving to the Department of Justice?

A. I am appearing here not as an officer of the Inde- [fol. 1305] pendent Bankers Association.

Mr. Littleton: Answer my question.

(The last question was read by the reporter, as follows:)

"Q. And is your appearance here part of that cooperation that you are giving to the Department of Justice?"

A. Yes, I would thank it fair to say that it is.

Mr. Littleton: That is all. Thank you.

By Mr. Price:

Q. What is the population of Elk Point, where your bank is?

A. It is about 1500, sir.

Q. What is the size of your bank?

A. Total footings are less than $4,000,000. I think $3,700,000, about, at this time.

Q. What is your lending limit?

A. $40,000.

Q. And your concern about banks and this merger movement that you spoke about is only in respect of individual small banks such as yours in towns throughout the country, is it not?

A. Well, I would say that our concern is in the area of mergers as such. I am not fearing this, sir, as far as my [fol. 1306] little county seat town is concerned.

Q. You said you were afraid of unit banks disappearing?

A. Yes, sir.

Q. By "unit bank" do you mean the small independent bank in small towns throughout the country?

A. Yes, I do.

Q. That is your primary concern, isn't it?

A. My primary concern at the moment, of course, is in the area of my own small community. We always think of our own community first, but I am greatly concerned about the entire merger movement, and I have tried to what extent I could to encourage our association to back legislation to prevent this.

Q. Yes, but when you spoke about the direct touch being improved—

A. Yes.

Q. —your concern about the merger movement was that it might affect that direct touch which small banks have with their customers; isn't that so?

A. In the event, yes, that they are absorbed by another bank.

Q. Yes, and that is the kind of absorption, the kind of merger that you are opposed to?

A. Yes, sir.

[fol. 1307] Q. And that is your only concern, isn't it, really?

A. It is the primary concern.

Q. At this same address that Mr. Litteton referred to you also said:

> "Much is said of small business and its problems these days. Independent banking in the United States is small business. Of our 13,000 banks, 11,400 have deposits of less than $10 million . . ."

A. That is right.

Q. And that is the group that you are concerned with?

A. Yes, I am concerned with that group and, of course, we have other banks that have very considerable deposits, but the average is the smaller banks.

Q. Does this express your real concern about this problem? I am reading now from "An Independent Bankers Credo" as it appears in your publication of this year:

> "Depositors and borrowers are sold, as it were, 'down the river' to become statistics in the big city

bank's balance sheet reports. Officers and employees of the merged institutions exist in bewilderment at the submergence of the once-independent bank to which they dedicate their lives and loyalty."

[fol. 1308] A. Yes, sir.

Mr. Price: That is all.

By Mr. Littleton:

Q. Do you know, Mr. Hansen, which is the largest bank in the group of IBA members?

A. I am not sure. I believe that it would be probably Republic National of Dallas. I am not sure.

Q. Republic National of Dallas?

A. I rather think so. I am not sure. There is a Bank of the Commonwealth in Detroit. This is a large bank. There are a great many large banks. I have never compared them.

Q. How large is the Detroit bank?

A. I believe it is a half billion in footings.

Q. Would you be able to say how many of your banks of the independent group are the only banks in the town in which they are located?

A. Quite a large number, sir, but I wouldn't be able to say how many.

Q. More than half?

A. No. This is a guess, sir. I would say perhaps a little less than half. However, I have never made such a research.

Q. That would be slightly less than 3000?

[fol. 1309] A. Yes, if my estimate is correct.

Mr. Reycraft: Mr. Price read from "An Independent Bankers Credo."

Will you mark for identification as Government's Exhibit No. 66 a booklet entitled "The Independent Bankers Association," in which the statement which Mr. Price read is set forth at Pages 58 and 59.

Mr. Price: Which year?

Mr. Reycraft: This is 1961-1962.

The Court: What is that exhibit number?

Mr. Reycraft: It should be 66.

The Court: That is the IBA Credo?
Mr. Reycraft: Yes.

Redirect examination.

By Mr. Reycraft:

Q. Mr. Hansen, you were quoted as having made a speech in which you indicated that you and your association would cooperate with the Department of Justice in, among other matters, this particular litigation; is that correct?

A. Yes.

Q. Why do you have an interest in cooperating with the Department of Justice?

A. For this reason, that the agencies responsible under the Merger Act of 1960 appear to me to be, in general, [fol. 1310] adopting only one course, and that is a "Yes" whenever the question came up. Then early this year the Department of Justice, under the Antitrust Division, elected to take a closer look and virtually effected what appeared to be a freeze on these mergers until they had a chance to scrutinize it further. In that situation, sir, it would be only natural that the officers of the IBA and its membership would be anxious to cooperate with the Department of Justice.

Q. And you have cooperated with the Department of Justice, have you not, sir?

A. I have tried.

Q. And you have cooperated in this particular litigation, have you not?

A. Yes, I have tried to be of help, if possible.

Q. Why did you think it was of any importance to you or to your association, since you are from South Dakota, to cooperate with the Department of Justice in this particular litigation?

A. I am very much concerned about the future of the commercial banking industry, and I hold firmly to the belief that this merger trend is detrimental to the future of this system of commercial banking as we know it, and holding firmly to that belief, I think I would be less than [fol. 1311] honest with myself if I didn't try to make what effort, however small, that I could to support the Department of Justice in opposing what I believe to be bad.

Q. Well, you are way out in South Dakota. Why does a merger in Philadelphia make any difference to you?

A. Well, in South Dakota two of these large banks that absorbed other banks have already got about 40 per cent of the assets of the banks in the State of South Dakota, and this trend is continuing, and I foresee a time when that percentage will be much higher.

Q. And why do you care about that?

A. I believe it is bad for the individual communities. I think my state is dependent perhaps more than any other directly upon agriculture, and from my own certain observation I know that farmers cannot get as satisfactory service out of these chain or group banks as they can out of the locally owned bank.

Q. Well, there aren't any fewer banking offices out there, are there, as a result of these mergers and acquisitions?

A. No.

Q. But you don't think the service is the same?

A. I know it isn't the same, sir.

[fol. 1312] Q. Why not?

A. Because the managing officer of this bank has to gear his service to the farmer according to a pattern that is made for him in the twin cities. He is not the managing officer of that bank except in name. It shows on the statement, and that is about as far as it goes.

Q. I am not sure that you really answered my question as to why you care about this particular merger. These banks don't lend to South Dakota, to your knowledge, do they?

A. To be very truthful, which I hope I am, the Philadelphia merger as such bears no interest to me at all except that it is a part of a pattern which my group in the IBA have tried desperately to stem. That is the only interest that I have in this particular merger.

By Mr. Littleton:

Q. And all these sentiments and arguments and positions and opinions that you stated here, Mr. Hansen, you urged on Congress and the committees of Congress, you and your group, at the time of the passage and before the passage of the amendment to the FDIC Act of 1960; isn't that correct?

A. Yes, that is right.

[fol. 1313] By Mr. Reycraft:

Q. Were the standards incorporated in this amendment to the FDIC to which Mr. Littleton referred those that your association supported?

A. I am sorry; I didn't hear you.

Q. Was the legislation as passed, passed in the manner in which your association recommended it?

A. No, it was not.

Q. Did you feel it to be adequate to meet the problem which you described?

A. No, I did not.

By Mr. Price:

Q. Is the concern that you expressed in response to Mr. Reycraft's questions a few moments ago stated accurately in these paragraphs from the Credo which I shall now read you:

> "We believe in the Independent Bank as keystone of the independent town and city. We view with alarm trends in banking that would replace our American system of Independent Banks, with branches of big city, money market institutions. We are distressed and disturbed at the assumption that bigness, branches, concentration of banking power and elimination of the locally-owned Independent Bank are 'progress.'"

[fol. 1314-1315] Does that express what you described here a few moments ago as your real concern in this matter?

A. Yes, it does, sir.

Mr. Price: Thank you.

Mr. Reycraft: Thank you, sir.

The Court: Do you have any witness that would take less than a half hour?

Mr. Reycraft: No, sir.

The Court: All right. Suppose we recess now for the weekend.

Mr. Price: Does Your Honor care to put on record now the figures of the lending limits of the Philadelphia banks requested some time ago?

The Court: Yes.

Mr. Price: Including the two small banks in Philadelphia, but excluding First Camden, the lending limits, the aggregate lending limits of all the Philadelphia banks, $38,097,831, and the First Camden would add $750,000 to that total.

(Adjourned at 12:35 P.M. until Monday, June 12, 1961, at 10:00 o'clock A.M.)

[fols. 1316-1317] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title Omitted]

SIXTH DAY

Philadelphia, Pa., June 12, 1961

Before Hon. Thomas J. Clary, J.

* * * * * * *

[fol. 1318] WILLIAM A. HALPIN, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. O'Donnell:

Q. Mr. Halpin, would you state your occupation.

A. Special agent of the F.B.I.

Q. Have you prepared material from the records of the bank?

A. Yes, I have.

Mr. O'Donnell: May we have marked for identification as Government's Exhibit 67 for identification a seven-page document entitled "Loans of Philadelphia National Bank (PNB) in Which PNB Participates Under Written Agreement—From Loan Records of PNB."

(Document entitled "Loans of Philadelphia National Bank (PNB) in Which PNB Participates Under Written Agreement—From Loan Records of PNB" was marked Exhibit G-67 for identification.)

By Mr. O'Donnell:

Q. Mr. Halpin, was this document prepared from records of the Philadelphia National Bank?

A. Yes, it was.

Q. Which records did you examine?

A. The loan records, participation loan record.

[fol. 1319] Q. Turning to the first page of the document, Mr. Halpin, does it indicate the name of the borrower?

A. Yes, it does.

Q. And the original amount of the loan?

A. Yes.

Q. And the interest rate?

A. Yes.

Q. What else is shown on the page?

A. The participating banks and the amount of their participation and the amount of the total original loan outstanding as of the date of the examination and the amount of the Philadelphia National Bank's participation as of that date.

Q. How many banks are shown on the first entry, Mr. Halpin?

A. In the first loan there are 90 participating banks.

Q. What is the total amount of the original loan?

A. $162,380,000.

Q. When was that loan granted?

A. The agreement was 9/15/60.

Q. The rate of interest?

A. 5½ per cent.

Q. What is the largest amount which any bank loaned under the agreement?

[fol. 1320] A. $15 million.

Q. And the amount which the Philadelphia National Bank loaned?

A. $4 million.

Q. Is the Girard Trust shown in that agreement?

A. Yes.

Q. Will you state the borrower's name.

A. J. I. Case Company and J. I. Case Credit Corporation.

Q. And that loan occupies the first two pages and goes over to Page 3 of your tabulation?

A. Yes.

Q. What was the amount of Girard's participation in that loan, Mr. Halpin?

A. $2 million.

Q. What was the amount of participation of the last bank listed in that loan?

A. $100,000.

Q. Was that the lowest amount?

A. Yes.

Q. And the next borrower was who?

A. The next one listed is the Globe-Union, Inc.

Q. The amount of their original loan?

A. $3 million.

Q. And the interest rate?

[fol. 1321] A. 5⅜ per cent.

Q. How many banks participated in that agreement?

A. Four.

Q. And the amount of Philadelphia National Bank's participation?

A. $300,000.

Q. What as the largest amount loaned by any bank shown?

A. $2,100,000.

Q. And the next agreement, what was the name of the borrower?

A. R. M. Hollingshead Corporation.

Q. And the amount of the loan?

A. $900,000.

Q. And the interest rate?

A. ½ per cent above prime.

Q. How many banks participated?

A. Two.

Q. And the amount of Philadelphia National Bank's participation?

A. $400,000.

Q. And the next agreement?

A. The Kent Corporation.

Q. The amount of its original loan?

A. $1,025,000.03.

[fol. 1322] Q. And their interest rate?

A. 5¼ per cent.

Q. How many banks participated?

A. Five.

Q. And the amount of Philadelphia National Bank's participation?

A. $280,273.50.

Q. Was Girard Trust included in that loan agreement?

A. Yes.

Q. What was the amount of their participation?

A. $280,273.50.

Q. And the name of the borrower in the next agreement?

A. The Chemstrand Corporation.

Q. And the amount of their loan?

A. $25,000,000.

Q. The interest rate?

A. 4½ per cent.

Q. How many banks participated in that agreement?

A. Seven.

Q. And the amount of the Philadelphia National Bank?

A. $4,760,000.

Q. And the next agreement?

A. Northwest Airlines, Inc.

Q. And the amount?

[fol. 1323] $16 million.

Q. The interest rate?

A. 5 per cent.

Q. How many banks participated?

A. Nine.

Q. And the amount of Philadelphia National Bank's participation?

A. $1 million.

Q. The amount of Girard Trust's participation?

A. $750,000.

Q. What was the largest amount loaned by any bank in that agreement?

A. $3 million.

Q. The name of the next borrower?

A. Pan American Airways.

Q. The amount of the original loan?

A. $130 million. Amended—would you like the amendment?

Q. Yes.

A. Amended later with an additional $18 million.

Q. And the interest rate?

A. Prime rate at the date of borrowing with any two of the following New York banks: Guaranty Trust, First National City Bank, Chase Manhattan.

[fol. 1324] Q. And the number of banks participating?

A. 39.

Q. And the amount of the loan of the largest?

A. $15 million.

Q. How many banks loaned $15 million?

A. Three banks.

Q. And the amount of Philadelphia National Bank's participation?

A. $1 million of the original.

Q. Did Girard Trust participate in that?

A. Yes.

Q. What amount?

A. $1,250,000.

Q. The name of the next borrower?

A. Radiatron, Inc.

Q. The amount of their loan?

A. $5 million.

Q. And the interest rate?

A. 1 per cent above prime.

Q. Is that 1 per cent?

A. 1 per cent above prime.

Q. And the amount of Philadelphia National Bank's participation?

[fol. 1325] A. $2 million.

Q. Is that the largest amount loaned by any bank?

A. Yes.

Q. How many banks participated?

A. Four.

Q. And the next borrower?
A. Schenley Industries, Inc.
Q. And the amount of their loan?
A. $75 million.
Q. And their interest rate?
A. Prime rate.
Q. And the number of banks participating?
A. 15.
Q. The amount of Philadelphia National Bank's participation is how much?
A. $1,500,000.
Q. What is the largest amount loaned by any bank in that agreement?
A. $17 million.
Q. What bank was that?
A. Bank of America National Trust and Savings Association.
Q. And the next borrower?
A. Sun Oil Company.
Q. The amount of their loan?
[fol. 1326] A. $40 million.
Q. And the interest rate?
A. $3\frac{1}{4}$ and $3\frac{7}{8}$ per cent.
Q. How many banks participated in that agreement?
A. Five.
Q. The amount loaned by Philadelphia National Bank?
A. $5 million.
Q. The largest amount loaned by any bank in that agreement?
A. $20 million.
Q. The name of the next borrower?
A. United Air Lines, Inc.
Q. And the amount of their loan?
A. $130 million, amended later bringing the total up to $165 million.
Q. And their interest rate?
A. $\frac{1}{2}$ per cent above prime, New York.
Q. How many banks participated in that agreement?
A. 37.
Q. The amount loaned by Philadelphia National Bank?
A. $3,250,000 of the original.

Q. And the largest amount loaned by any bank in that agreement?

A. $35,750,000.

[fol. 1327] Q. And the name of the next borrower?

A. Crane Company.

Q. What was the amount of its loan?

A. $45 million.

Q. The number of banks participating?

A. 17.

Q. And the amount of Philadelphia National Bank's loan?

A. $1,350,000.

Q. And the largest amount loaned by any bank in that agreement?

A. $6,300,000.

Q. And the name of the next borrower?

A. Chatham Reading Chemical Corporation and Houston Chemical Corporation.

Q. What was the amount of their loan?

A. $14 million.

Q. And the interest rate?

A. ½ per cent above prime.

Q. How many banks participated in that agreement?

A. Two.

Q. What was the amount loaned by Philadelphia National Bank?

A. $5 million.

Q. And the name of the next borrower?

[fol. 1328] A. Publicker Industries, Inc.

Q. The amount of their loan?

A. $20 million.

Q. And the interest rate?

A. Prime rate plus one-half.

Q. The number of banks participating in that agreement?

A. 12.

Q. What was the amount loaned by Philadelphia National Bank?

A. $2,800,000.

Q. Did Girard Trust participate in that agreement?

A. Yes.

Q. What was the amount of their loan?

A. $1,600,000.

Q. What is the name of the next borrower?

A. Alan Wood Steel Company.

Q. And the amount of their loan?

A. $5 million.

Q. How many banks participated in that agreement?

A. Four.

Q. What was the amount of Philadelphia National Bank's participation?

A. $2 million.

Q. Did Girard Trust participate?

[fol. 1329] A. Yes.

Q. The amount of their participation?

A. $1,500,000.

Mr. O'Donnell: Cross-examine.

Cross-examination.

By Mr. Littleton:

Q. Mr. Halpin, are you an accountant?

A. Yes, sir.

Q. I notice that this G-67 is in handwriting. Is this your handwriting?

A. I didn't get your question, sir.

Q. Is this your handwriting that G-67 appears in?

A. Yes, sir. Another agent participated with me in preparing this schedule.

Q. What was his name?

A. Agent Ganley, John Ganley.

Q. And you made this examination in the office of the Philadelphia National Bank?

A. Yes, sir.

Q. When was this?

A. When?

Q. Yes.

A. May 10 and 11.

Q. Was anyone from the bank with you at the time you [fol. 1330] made this examination?

A. Yes, sir.

Q. Who was that?

A. Mr. Moore.

Q. Moore?

A. Lester Moore and Mr. Kilroy was present from time to time.

Q. Of course, you don't know anything about the circumstances under which any of these prime loans were made, do you?

A. No, sir.

Q. You don't know whether it was the suggestion of the customer or the suggestion of the Philadelphia National Bank, do you?

A. No, sir.

Q. Nor do you know any of the arrangements that were made other than what you saw in the record?

A. That is all, sir.

Q. Does G-67 set forth all the loans of the Philadelphia National Bank of this particular type that you can find?

A. No, it does not.

Q. What was the basis of your selection of this G-67?

A. We selected 15 of this type of loan as example, and they were taken indiscriminately. We selected 15 at the [fol. 133] request and instruction of the attorneys from the Antitrust Division.

Q. How many were there all together?

A. I don't know.

[fol. 1332] Q. How were these fifteen picked?

A. Agent Ganley, with Mr. Moore and one of the attorneys from the Antitrust Division, went to the drawers and just selected certain loans for this schedule. If they weren't the type of loans that would fit into the schedule, not the type that we were scheduling, then Mr. Moore told Mr. Ganley and he would select another.

Q. Who was the representative of the Attorney General's Department with you?

A. Mr. O'Donnell and Mr. Flocken.

Q. Will you now answer my question as to what the basis of the selection was?

You told us what they did, but you didn't tell us what the basis of what they did was.

A. We didn't have any basis, other than what Mr. O'Donnell and Mr. Flocken instructed us to do, which was to select fifteen.

Q. Well, you said that if you found one that didn't fit into this schedule, then they told you to get something else. Now, that means you had a certain standard or basis or criterion for selection.

What was it?

A. Yes. Some of the participation loans were not based on written agreements between the participating banks and [fol. 1333] the borrower. This schedule was to reflect that type of loan.

Q. Now, wait a minute. This schedule was to reflect the type that didn't have any agreement?

A. No, that did; the loans that were based on a written agreement between the participating banks and the borrower.

Q. Do I understand that you were to select every one that was based on a written agreement between the participating banks and the borrower?

A. No; just fifteen.

Q. All right. Then you must have had some other basis for selection in that group.

Now, what was that basis?

A. An indiscriminate sampling basis, just to take fifteen of that type.

Q. You mean just pull them out of the drawer, without reference to anything else?

A. That's right.

Q. Who did the pulling out of the drawer?

A. Agent Ganley.

Q. And why fifteen?

A. I don't know the basis for that.

Q. How many were there all together?

A. I don't know that.

Q. Did you try to pick the biggest?

[fol. 1334] A. No, sir.

Q. Did you try to pick the smallest?

A. No, sir.

Q. Did you try to pick the ones that indicated the business was going to New York?

A. No. It was an indiscriminate sampling. We didn't pick any particular type.

Q. And you didn't know, of course, in any instance appearing on G-67 what, if any, other loans Philadelphia National Bank may have to the borrowers listed on G-67?

A. Oh, no.

Q. Let me inquire a little more into this meaning of your word "indiscriminate."

Did they open the drawer and just pick out the first fifteen or just put their hands in and pull out any that might be there?

A. They pulled—they didn't take the first fifteen. They went from one drawer and took a couple, and another drawer and took a couple more.

Q. Just a grab bag; just like a grab bag, pulling them out?

A. Pretty much.

Q. Having pulled one out and looked at it, in any case, was it returned without being put on the schedule that was made up?

[fol. 1335] A. Yes.

Q. And what would be the basis of the rejection, if I may call it such?

A. If it was not this type of loan, that is, based on a written agreement between the borrower and the participating banks.

Q. Was that the only reason you put any bank back and didn't put them on your schedule?

A. Oh, yes.

Q. In other words, any one that was extracted in this grab-bag fashion from the file drawers, where there was an agreement between the borrower and the lending banks, you put on your schedule?

A. Yes, sir.

Q. So that you did take the first fifteen loans where there was an agreement, the first fifteen that were drawn?

A. That's right.

Q. You have said you know nothing about the arrangements that were made between the borrower and the banks in these particular cases on G-67; is that correct?

A. We saw the agreements, but other than that we wouldn't know.

Q. You saw the agreements, but you wouldn't know whether there was a case of the Philadelphia National Bank [fol. 1336] giving other banks a participation or Philadelphia National Bank being given a participation by other banks?

A. We made no distinction there.

Q. And you don't know whether it was the customer himself who selected the bank from which he was to borrow?

A. We don't know that.

Mr. Littleton: That's all.

By Mr. Price:

Q. Will you turn to the fourth page of that exhibit, the Pan American Airways loan; and I call your attention to the reference at the top of the page to the rate of interest.

Do you know what that means?

A. Prime rate?

Q. That isn't all it says.

A. Oh, no. The whole thing, do you mean?

Q. Yes. Do you know what that means?

A. It means the rate that would prevail for the loan.

Q. And that is dependent on what two or three other banks may do at some time, isn't it?

A. Yes, sir.

Q. It has nothing to do with what either the Philadelphia National Bank or the Girard Trust might do?

A. No.

Q. What?

[fol. 1337] A. No.

Q. The next page, Radiation, Inc., Schenley Industries, likewise have references to the prime rate.

Do these two mean the same thing?

A. The prime rate would mean the same thing, depending upon where the prime rate was supposed to apply.

Q. Well, then, it might be different, might it not?

A. Yes, sir.

Q. And the second one, Schenley Industries, there is a prime rate apparently fixed by Marine Midland Trust Company; correct?

A. Yes, sir.

Q. Is that right?

A. Yes, sir.

Q. And that might be different from the prime rate for the Radiation, Inc. loan, might it not?

A. Yes, sir.

Q. And the next page, United Air Lines, where the rate of interest is one quarter above the prime New York rate at the date of borrowing?

A. Yes, sir.

Q. The one quarter above the prime rate in New York is a reference to a rate which is fixed in New York and not by any bank in Philadelphia, is it not?

[fol. 1338] A. Yes, sir.

Q. And the last page, Crane Company, the rate is stated as one quarter above prime rate of Mellon National Bank.

In other words, in that case, the Mellon National Bank fixed the rate?

A. Yes, sir.

Q. Without regard to what any other bank might do?

A. Yes, sir.

Mr. Price: That's all, thank you.

Mr. O'Donnell: May we have marked as Government's Exhibit 68 for identification a three-page document entitled "Loans of Philadelphia National Bank (P. N. B.) in which PNB permits other banks to participate—From Loan Records of PNB."

(Three-page document entitled "Loans of Philadelphia National Bank (P. N. B.) in which PNB permits other banks to participate—From Loan Records of PNB," was marked Exhibit G-68 for identification.)

Direct examination (resumed)

By Mr. O'Donnell:

Q. Mr. Halpin, did you prepare this document?

A. No, I did not. It was prepared by—no. It was prepared by Agent Ganley of our office.

Q. At the Philadelphia National Bank?

[fol. 1339] A. Yes.

Q. At the same time that you prepared Government Exhibit 67?

A. Yes.

Q. And this exhibit shows the name of the borrower?

A. The name of the borrower, yes.

Q. The amou. ' of the loan?

A. Yes.

Q. And the rate of interest?
A. Yes.
Q. And the date the loan was granted?
A. No. That date column is the date of the examination.
Q. The date of the examination?

By Mr. Littleton:

Q. Were you present, Mr. Halpin, at the time this was prepared?
A. Yes. I was. Yes, sir.
Q. Would you say it was prepared under your direction?
A. Yes, sir.

By Mr. O'Donnell:

Q. Does it show the names of the participating banks?
A. Yes.
Q. And the amount of participation?
A. Yes.

[fol. 1340] Q. Taking the first loan, what is the name of the borrower?
A. Clark Equipment Credit Corporation.
Q. And the amount of the loan?
A. $1,000,000.
Q. And the interest rate?
A. 4½ per cent.
Q. How many banks participated in that?
A. Two.
Q. And the amount of the Philadelphia National Bank's participation?
A. $800,000.
Q. What was the name of the borrower on the second loan, Mr. Halpin?
A. Carson Sales Finance Company.
Q. And what was the amount of the loan?
A. $750,000.
Q. And the number of banks participating?
A. Fifteen.
Q. What was the amount of Philadelphia National Bank's participation and the date the records were examined?
A. What we have listed here is the participation as of the date the loan was granted.
Q. That is as of the date the loan was granted? What was that amount?

[fol. 1341] A. $122,500.

Q. And the name of the next borrower?

A. City Finance Company, Incorporated.

Q. The amount of its loan?

A. $500,000.

Q. At what rate of interest?

A. 5 per cent.

Q. How many banks participated in that agreement?

A. Twelve.

Q. And what was the amount of the Philadelphia National Bank's participation?

A. $45,000.

Q. The name of the next borrower, Mr. Halpin?

A. M. M. Freeman & Company, Incorporated.

Q. And the amount of its loan?

A. $55,000.

Q. What was the rate of interest?

A. 4½ per cent.

Q. How many banks participated in that agreement?

A. Two.

Q. And the amount of Philadelphia National Bank's participation?

A. $30,000.

Q. What was the name of the next borrower?

[fol. 1342] A. Emanuel E. Katz.

Q. What was the amount of its loan?

A. $694,642.88.

Q. And what was the rate of interest?

A. 4½ per cent.

Q. How many banks participated in that agreement?

A. Twelve.

Q. And the amount of Philadelphia National Bank's loan?

A. $4,642.88.

Q. The name of the next borrower?

A. Laird, Bissell & Meeds.

Q. What was the amount of its loan?

A. $200,000.

Q. At what rate of interest?

A. 4½ per cent.

Q. How many banks participated in that agreement?

A. Twelve.

Q. And the amount of Philadelphia National Bank's participation?

A. $19,000.

Q. I think you may be looking at the amount on the next loan.

A. Excuse me. Yes, I am. $5,000.

Q. Did you say ten banks participated in this loan?

[fol. 1343] A. Excuse me. I was in error.

Yes, ten banks participated in that loan to Lair, Bissell & Meeds.

Q. What was the amount of the next loan, Mr. Halpin?

A. $119,000.

Q. The name of the borrower?

A. Abe & Melvin J. Levine.

Mr. Littleton: If Your Honor please, I am a little disturbed at this exhibit and the last exhibit because this witness is being asked to give the names of the customers of the Philadelphia National Bank and the amount of the loans, which I think is confidential information.

I probably should have raised this objection at the beginning, but it is becoming more and more pronounced.

I wonder if we couldn't have this testimony impounded and if the witness couldn't be asked simply by a number of loans rather than giving names and the amounts of the loans.

The names add nothing to the Government's case, as far as I can see, nor does any of the rest of it.

The Court: What is the importance of the names?

Mr. O'Donnell: Well, we will be agreeable in this exhibit, if the defendants wish to substitute in place of names [fol. 1344] the type of business in which the borrower is engaged and the location.

Mr. Littleton: The location and the type of business doesn't bother us at all, but here you are, having him read from something which is going in as an exhibit.

We can ask the Court to impound the exhibit, but if he keeps giving the names orally here in open court, I think it does everyone a disservice and I am going to ask that you not give the names in open court for the record.

Mr. O'Donnell: That is agreeable.

Mr. Littleton: And I am going to ask that all of this testimony be impounded, if I may.

We raised the question generally with the Government right from the very beginning and have asked them to protect this confidential relationship, and I assumed that they were going to do it.

The Court: I must have something to work on, Mr. Littleton. Up to this point I have heard no objection.

Now that you have objected, we will dispense with names.

Mr. Littleton: Thank you, sir. It is my error that I have let it go this far, if Your Honor please; but if we could stop at this point and proceed by number, I don't care whether you give the type of business or the particular [fol. 1345] number.

Mr. O'Donnell: May I have the last question, Mr. Reporter?

(The reporter repeated the testimony as follows:

"Q. The name of the borrower?
"A. Abe & Melvin J. Levine.")

By Mr. O'Donnell:

How many banks participated in that loan?

A. Two.

Q. And the amount of Philadelphia National Bank's participation?

A. $19,000.

Q. And in the next line, would you state the location of the borrower?

A. Philadelphia.

Q. And the amount of the loan?

A. $125,039.18.

Q. And the number of banks participating in that loan?

A. Four.

Q. The amount of Philadelphia National Bank's participation?

A. $39.18.

Q. For the next loan, would you state the location of the [fol. 1346] borrower?

A. Bryn Mawr, Pennsylvania.

Q. The amount of the loan?

A. $850,000.

Q. What was the rate of interest?

A. 5 per cent.

Q. How many banks participated in that agreement?

A. Eleven.

Q. And the amount of Philadelphia National Bank's participation?

A. $5,000.

Q. And the location of the next borrower?

A. New Bedford, Massachusetts.

Q. What was the amount of that loan?

A. $604,000.

Q. The rate of interest?

A. 4½ per cent.

Q. How many banks participated there?

A. Nine.

Q. And the amount of Philadelphia National Bank's participation?

A. $59,000.

[fol. 1347] Cross-examination. (Resumed)

By Mr. Littleton:

Q. Mr. Halpin, again I suppose you don't know anything about the arrangements that were made by the Philadelphia National Bank with respect to each of the loans shown on G-68, do you?

A. I don't.

Q. Who devised the legend which appears at the head of each sheet of G-68, which reads "Loans of Philadelphia National Bank (P. N. B.) in which PNB permits other banks to participate"?

A. I did.

Q. What was your meaning of the word "permits"? Where did you get that?

A. It was my word, but it was my understanding that Philadelphia National—yes, Philadelphia National——

Q. Will you tell me from whom you got your understanding?

A. Pardon me?

Q. Tell us from whom you got your understanding before you tell us what your understanding was.

A. From talking to Mr. Moore and Mr. Kilroy, I understood that this was the type of loan which Philadelphia National Bank originated, between itself and the borrower, and at the discretion of Philadelphia National Bank it

[fol. 1348] would participate it out to certain other banks.

Q. Did they tell you what other banks (and I don't mean the names of the banks), but the type of the banks to whom they would participate it out?

A. Generally, banks; but other than that, I don't think that we went into it any farther.

Q. Banks with which the Philadelphia National Bank had a relationship?

A. Yes.

Q. Correspondent banks, did they say?

A. They may have used that term.

Q. How did you select this particular group on G-68?

A. In the same manner as we selected the other group. Agent Ganley picked certain ones.

Q. He did the grabbing that time?

A. Pardon me?

Q. Agent Ganley did the selection from the file drawers that time, did he?

A. He did before, too.

Q. And how many loans of this kind are there?

A. I don't know.

Q. How many did you select or did Ganley select?

A. Ten.

Q. And why did he select ten?

[fol. 1349] A. They were our instructions.

Q. From whom?

A. From the Antitrust Division orders, Mr. O'Donnell and Mr. Flocken.

Q. What was to be the basis of the selection?

A. That they would be this type of loan, not based on any written agreement between the banks and the borrower.

Q. Do I understand, then, it would include the type that you put back and didn't consider in compiling G-67?

A. Yes.

Q. That group that were put back are included in the group from which you drew G-68?

A. I don't think we can use the words "put back," but this wasn't the type that we were selecting in that first selection.

Q. Well, those that you rejected in making up your list in G-67, were they in the group from which G-68 were selected?

A. They were all in the same drawers.

Q. They were all in the same drawers?

A. The same drawers, as I understand it.

Q. You said as you understand it. Weren't you there?

A. Well, I was at a table aside, and Agent Ganley was with Mr. Moore and Mr. O'Donnell and Mr. Flocken, selecting the loans to be examined.

Q. As to each one of these on G-68, you say there were no [fol. 1350] agreements?

A. That's right.

Q. No written agreements?

A. No.

Q. Between the borrower and the banks?

A. (No response.)

Q. What were your other instructions as to selection of this particular type of loan?

A. That was all.

Q. Which ones of these did you turn back and not use in your compilation?

A. I don't believe we turned any back in this group.

Q. You mean everything that was pulled out of the drawer you used?

A. Yes. We did this—Agent Ganley did it more from the ledger cards than he did from the files, and it was the files that were pulled for that other schedule, the preceding one.

Q. And you don't know what other loans Philadelphia National Bank might have to any of those borrowers appearing on G-68, do you?

A. No, sir.

Q. Do you know whether or not there is a written agreement between the Philadelphia National Bank and the banks participating in each of these loans?

[fol. 1351] A. We do not—I do not know.

Q. You don't know that at all?

A. No.

Mr. Littleton: That's all.

[fol. 1352] Mr. O'Donnell: May we have marked as Government's Exhibit 69 for identification a five-page document entitled "Commercial Loans in Which Girard Trust Corn Exchange Bank (Girard) Participates With Other Banks on the Basis of Written Agreement Between Borrower and Participating Banks—From Girard's Loan Records."

(Document entitled "Commercial Loans in Which Girard Trust Corn Exchange Bank (Girard) Participates With Other Banks on the Basis of Written Agreement Between Borrower and Participating Banks—From Girard's Loan Records," was marked Exhibit G-69 for identification.)

By Mr. O'Donnell:

Q. Mr. Halpin, did you prepare this table?
A. Agent Walker and I prepared it, yes, sir.
Q. You prepared the first three pages?
A. Yes, sir.
Q. Agent Walker prepared the last two at the same time you were working on your part?
A. Yes, sir.
Q. Did he do it under your supervision?
A. Yes, sir.
Q. Is this table similar to Government's Exhibit 67 in that it was prepared from written agreements?
A. Yes.
[fol. 1353] Q. Did you examine the Girard loan records?
A. Yes.
Q. And extract the information shown here?
A. Yes.
Q. What information is shown for the loans?
A. The identity of the borrower——

Mr. Price: May I ask that the identity be not given, but the location.

A. —the amount of the original loan, the rate of interest, the identity of the participating banks, and the amount of the participation of each, and the current status of Girard's participation, that is, their participation as of the date of the examination of the record.

By Mr. O'Donnell:

Q. Taking the first loan, Mr. Halpin, where is the borrower located?
A. New York City.
Q. And the amount of his loan?
A. $10 million.
Q. And the interest rate?
A. ½ per cent above prime.

Q. How many banks participated in that agreement?
A. Four.
Q. What was the amount of Girard Trust's participation?
[fol. 1354] A. $2 million.
Q. The second last column there has the date 5/17/61. What does that date indicate?
A. That is the date that we examined the records.
Q. At that time what was the current amount of Girard's participation?
A. $1,850,000.
Q. And the location of the next borrower?
A. Detroit, Michigan.
Q. The amount of the loan?
A. $60 million.
Q. How many banks participated in that agreement?
A. 29.
Q. The amount of Girard Trust's participation?
A. $1,500,000.
Q. Did Philadelphia National Bank participate?
A. Yes.
Q. What was the amount of its participation?
A. $1,500,000.
Q. The location of the next borrower?
A. Philadelphia.
Q. The amount of its loan?
A. $2,500,000.
Q. How many banks participated in that?
[fol. 1355] A. Eight.
Q. The amount of Girard Trust's participation?
A. $454,500.
Q. Did Philadelphia National Bank participate?
A. Yes.
Q. What was the amount of its participation?
A. $681,750.
Q. What is the location of the next borrower?
A. Philadelphia.
Q. What is the amount of its loan?
A. $6 million.
Q. The rate of interest?
A. ¼ per cent above prime in Philadelphia.
Q. How many banks participated in that agreement?
A. Five.

Q. The amount of Girard Trust's participation?
A. $1,500,000.
Q. Did Philadelphia National Bank participate in that agreement?
A. Yes.
Q. What was the amount of its participation?
A. $1,500,000.
Q. The location of the next borrower?
A. Philadelphia.
[fol. 1356] Q. What was the amount of its loan?
A. $3,300,000.
Q. The rate of interest?
A. ½ per cent above prime.
Q. How many banks participated in that loan?
A. Two.
Q. And the amount of Girard Trust's participation?
A. $1,650,000.
Q. And the location of the next borrower?
A. Covington, Kentucky.
Q. What was the amount of its loan?
A. $1,100,000.
Q. What interest rate?
A. 1 per cent above prime.
Q. The number of banks participating?
A. Three.
Q. What was the amount of Girard Trust's participation?
A. $440,000.
Q. Did Philadelphia National Bank participate?
A. Yes.
Q. What was the amount of its participation?
A. $440,000.
Q. The location of the next borrower?
A. Philadelphia.
[fol. 1357] Q. The amount of its loan?
A. $750,000.
Q. The rate of interest?
A. 6 per cent.
Q. The number of banks participating was how many?
A. Two.
Q. What was the amount of Girard's participation?
A. $375,000.
Q. The location of the next borrower was what?

A. Jenkintown, Pennsylvania.

Q. What was the amount of its loan?

A. $400,000.

Q. What was the rate of interest?

A. 1½ per cent above prime.

Q. How many banks participated in that loan?

A. Three.

Q. The amount of Girard Trust's participation?

A. $150,000.

Q. What was the location of the next borrower?

A. Lancaster, Pennsylvania.

Q. And the amount of the loan was how much?

A. $500,000.

Q. And the rate of interest was how much?

A. 1 per cent above prime.

[fol. 1358] Q. How many banks participated?

A. Two.

Q. And the amount of Girard Trust's participation?

A. $300,000.

Q. What is the location of the next borrower?

A. New York and Trenton, New Jersey.

Q. Can you tell me the amount of the loan?

A. Originally $10 million, increased by a subsequent agreement to $12 million.

Q. What was the rate of interest?

A. ½ per cent above prime.

Q. The number of banks which participated?

A. Four.

Q. What was the amount of Girard Trust's participation?

A. 25 per cent.

Q. Did Philadelphia National Bank participate in that loan?

A. Yes.

Q. What was the amount of its participation?

A. 25 per cent.

Q. In the extreme left-hand column there is a statement, "Maturity ledger card seen." Can you tell us the meaning of that?

A. There is a card in the records of the Girard Trust [fol. 1359] Corn Exchange Bank relative to these loans, and we checked them to make sure that the current amount

of the loan outstanding in so far as the Girard Trust was concerned was correct.

Q. What is the location of the next borrower?

A. Philadelphia.

Q. And the amount of its loan?

A. $10 million.

Q. And the interest rate?

A. ½ per cent above prime.

Q. How many banks participated in that loan?

A. Four.

Q. And the amount of Girard Trust's participation?

A. $2,500,000.

Q. And the current status of Girard's participation?

A. $2,343,750.

Q. What is the location of the next borrower?

A. Baltimore.

Q. What was the amount of its loan?

A. $4 million.

Q. How many banks participated in that agreement?

A. Six.

Q. What was the amount of Girard Trust's participation?

A. $500,000.

[fol. 1360] Q. The location of the next borrower?

A. Pennsburg, Pennsylvania.

Q. What was the amount of its loan?

A. $20,515,500.

Q. What was the rate of interest?

A. ¾ per cent above prime.

Q. Can you tell me the number of banks participating in that agreement?

A. 18.

Q. What was the amount of Girard Trust's participation?

A. $2,500,000.

Q. And the current status of Girard's participation?

A. $2,275,000.

Q. Will you tell us the location of the next borrower?

A. New York.

Q. The amount of its loan?

A. $1 million.

Q. The number of banks which participated?

A. Two.

Q. What was the amount of Girard's participation?

A. $500,000.

Q. The location of the next borrower?

A. New York.

Q. And the amount of its loan?

A. $700,000, plus an additional amount by an amendment [fol. 1361] of $300,000, making a total of a million.

Q. How many banks participated in that agreement?

A. Two.

Q. The same two banks participated in the amendment?

A. Yes.

Q. What was the amount of Girard's participation?

A. $350,000 in the original and $150,000 of the amended amount.

Q. The location of the last borrower?

A. Philadelphia.

Q. What was the amount of its loan?

A. $2 million.

Q. The number of banks which participated?

A. Four.

Q. The amount of Girard's participation?

A. $500,000.

Q. Did Philadelphia National Bank also participate?

A. Yes.

Q. Will you tell us the amount of its participation?

A. $500,000.

Mr. O'Donnell: No further questions.

Cross-examination.

By Mr. Price:

Q. How were these loans selected?

[fol. 1362] A. In the same manner as we selected those at the Philadelphia National Bank.

Q. Well, so that I won't need to repeat what was asked before, was there any difference in your procedure at the Girard in the selection of these loans than there was at the Philadelphia National Bank, which you have described in answer to Mr. Littleton's question?

A. Well, it differed slightly in that at Girard there were two trays containing the files relative to all the participation loans, commercial participation loans, based on agreements. There were also cards corresponding to those files.

The employees of Girard made these two trays of files available to us, and our instructions were to get 16 of those which were based on written agreements between the borrower and the participating banks.

Now, in these two trays there were also files relating to participating loans in which there was no agreement, written agreement, between the participating banks and the borrower. In other words, it was just the banks between themselves agreeing to the participation. So we had to select from these two trays the type of loan that we were interested in, and we didn't—the first 16 that we came to which answered our purpose, we took.

[fol. 1363] Q. And those 16 were the same type that were chosen in G-67 for the Philadelphia National Bank?

A. Yes, sir.

Q. Those were the agreements?

A. Yes, sir.

Q. Have you any knowledge of how the loans came to be created in the first place?

A. No, sir.

Q. At whose request?

A. No, sir.

Q. What the originating bank was?

A. No, sir.

Q. In respect to those where the loans were made to a borrower in some city other than Philadelphia, do you know whether the borrower had any business activity in Philadelphia or any office in Philadelphia?

A. No.

Q. Looking at the first one, the borrower in New York for $10 million, the rate of interest ½ per cent above prime, do you know what prime rate that refers to?

A. No, I don't.

Q. You wouldn't know whether it was New York or Philadelphia or Detroit or some other place?

A. No.

[fol. 1364] Q. Now, the next one which was Detroit prime at——

A. That's the National Bank.

Q. National Bank at Detroit. So that prime rate and the rate of interest for that loan was fixed by some bank in Detroit?

A. Yes.

Q. Without regard to what the participants of the loan did?

A. Yes, sir.

Q. The second one on the next page refers to the prime rate in Philadelphia. Do you know what banks fixed the prime rate in Philadelphia?

A. No, sir.

Q. And in the next one, a loan also in Philadelphia, it simply mentions prime. You don't know which prime rate that is?

A. No, sir.

Q. The one after that, from Covington, Kentucky, you don't know about that either?

A. No, sir.

Q. On the third page the borrower is described as being in Jenkintown, Pennsylvania, but underneath the material, the information, about the prime rate, and so on, has this language, "This commitment cancelled 4 24 61." Do you [fol. 1365] really think that was a loan at all?

A. Originally, yes, sir.

Q. A loan?

A. Yes, sir.

Q. Why would the reference be to a commitment if it ever reached the status of a loan?

A. Well, I think that that is possible if they have committed themselves to lend the borrower a certain sum.

Q. And then cancelled on April 24?

A. I know the reason.

Q. You know the reason for what?

A. For the cancellation. I remember it from the file.

Q. Was it a loan that was cancelled or a commitment that was cancelled?

A. A commitment to make the loan.

Q. Did the Girard ever make any loan?

A. Yes, sir.

Q. The last two pages are in different handwriting. Did they relate to the same types of agreements as the first two pages?

A. Yes, sir.

Q. I mean the first type of loans?

A. Yes, sir, it is a continuation.

Q. And so far as the references to various prime rates [fol. 1366] on these two pages are concerned, you have no more knowledge about them than you had about the others that I asked you about?

A. No, sir, I do not.

Mr. Price: That is all I have.

By Mr. Littleton:

Q. Do you have any knowledge of any other loans which the Philadelphia National Bank might have to any of the companies listed as borrowers in G-69?

A. I don't know the number of this exhibit.

Q. Well, this is G-69.

A. What was your question again, sir?

Mr. Littleton: Will you read it, Mr. Stenographer.

(The reporter read as follows:)

"Q. Do you have any knowledge of any other loans which the Philadelphia National Bank might have to any of the companies listed as borrowers in G-69?"

A. No, sir.,

Q. The same question as to any other loans that Girard Trust Corn Exchange might have to any of the borrowers listed in G-69.

A. No, sir.

[fol. 1367] Q. You know nothing about them. You don't know of any agreements that either bank might have with any one of the borrowers in G-69?

A. No, sir, I do not.

Q. With respect to these agreements which you referred to under G-69 and also under G-67, do I understand you looked at each of these agreements?

A. Yes, sir.

Q. Were the agreements uniform except for the parties named or was each one different?

A. I think they varied, as I recall. The reason why I don't know too definitely is that we looked at it just for the one purpose of getting the date of the agreement and the extent of the participation of the participating banks.

Q. Well, you must have looked at 31 different agreements,

then, because I think you said there were 15 under G-67 and 16 under G-69.

A. Yes, sir.

Q. Would you say that they varied a great deal among themselves?

A. We didn't read them that closely, because we were not interested in the wording of the agreement as much as we were the extent of the participation of the banks in that loan.

[fol. 1368] Q. Tell us just what you were interested in. What were you told to get out of the agreement?

A. The date of the agreement, the participating banks, and the extent of the participation of each bank.

Q. And you were told to take 15 of the Philadelphia National and 16 of the Girard?

A. Yes, sir.

Q. Was there any reason given why you were to take 15 of one and 16 of the other?

A. Not that I know of.

Q. But so far as you can remember, each agreement was, you might say, a tailor-made agreement for each particular loan; is that correct?

A. It was a printed agreement, yes, sir.

Q. Well, was there a standard form?

A. I can't say.

Q. Well, you read them.

A. I read the names of the participating banks and the extent of their participation.

Q. Well, you are used to looking at forms where information is filled in for one party and then information is filled in for another party, and other use of the form. Now, were these forms that were filled in or was each one an agreement [fol. 1369] separate by itself?

A. Oh, each was a separate printed agreement.

Q. A tailor-made agreement for that particular loan?

A. Oh, yes; yes, sir.

Mr. Littleton: All right, that is all.

Mr. O'Donnell: That is all. No further questions.

The Court: This is a good time to take a break.

(A 10-minute recess was taken at 11:00 o'clock A.M.)

[fol. 1370] Mr. Reycraft: The Government calls Mr. Orville Beadle.

Orville H. Beadle, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Reycraft:

Q. What is your present position, Mr. Beadle?

A. Senior vice-president of the Girard Trust Corn Exchange Bank.

Q. And how long have you held that position?

A. Approximately four years.

Q. What was your position before that time?

A. Vice-president of the Girard Trust Corn Exchange Bank.

Q. How long have you been with the Girard all together?

A. Twenty-eight years.

Q. What have your duties been as executive vice-president?

A. Senior vice-president.

Q. Pardon me.

A. I am in charge of the administration of the Banking Department.

Q. Will you tell us what a senior vice-president is at the Girard Trust?

[fol. 1371] A. Is?

Q. Yes, sir.

A. An officer, senior officer of the bank.

Q. And what is the distinction between the earlier title which you held?

A. I have further duties, expanded duties.

Q. Are the branch managers of the Girard branches responsible to you, sir?

A. No, sir.

Q. Whom do they report to?

A. Stephen Gardner.

Q. And whom does he report to?

A. He reports to me.

Q. So that they are one of your responsibilities?

A. Yes, sir.

Q. Indirectly?

A. Yes, sir.

Q. Do you know, Mr. Beadle, what the lending authority is of the branch managers of the Girard?

A. Yes, sir.

Q. What is it?

A. They vary.

Q. What are those degrees of variation?

A. They vary in commercial loans from a minimum of [fol. 1372] $5,000—a minimum of $5,000 to a maximum of, if I am not mistaken, $100,000.

Mr. Price: A little louder, please, Mr. Beadle. I am slightly deaf and I can't hear you.

By Mr. Price:

Q. What was the maximum?

A. I believe it's $100,000.

By Mr. Reycraft:

Q. And how many of your branch managers have lending authority of $100,000?

A. I am not exactly sure, but I would estimate—I would guess about maybe ten.

Q. Can you name the branches involved in these lending authorities?

A. Ambler, Narberth, Upper Darby, Second Street, I believe Arch Street, Germantown, possibly North Philadephia; and, incidentally, in some of these offices there is more than one officer that has that authority.

Q. Are these all of the branches that occur to you in which there is an officer who has lending authority of this limit?

A. Yes.

Q. Are any of these branches which were acquired by the Girard?

A. Yes.

[fol. 1373] Q. Which ones?

A. Narberth, Upper Darby, Ambler, Germantown, North Philadelphia.

Q. Second Street? Was that acquired?

A. No, that was—well, that was the head office of the

Corn Exchange. I guess it's acquired, yes. When you are talking about the merger of Girard and Corn, yes.

Q. It came into the system through the merger of the Corn Exchange Bank?

A. That's correct, sir.

Q. Mr. Beadle, do you have any information with reference to the relative size of deposits and loans in the branches themselves?

A. Deposits and loans?

Q. Yes, sir.

A. Do you mean collectively or——

Q. Do you know with respect to each branch its deposits and its loans?

A. I know the deposits. I don't know the loans or I am not sure of the loans in each branch.

Q. Do you have any source of information for these loans? Are they kept separately by branch?

A. No, they are not.

Q. Do you——

[fol. 1374] A. Pardon me, except for consumer-credit loans, direct consumer-credit loans are kept by branch.

Other consumer-credit loans and loans of other nature is not kept by branch.

Q. Now, you would not be able to tell, for example, then, if I understand you correctly, the amount of loans which originated in the Arch Street branch?

A. It could be reconstructed, but I wouldn't know without reconstructing it.

Q. Neither you nor any officer in the central office receives a report from the branch as of any date setting forth the loans outstanding?

A. No.

Q. And how they are carried on your books? Are they carried as head-office loans?

A. No. They are carried—they are carried according to the officer that handles it.

I am not too sure of that now. I am not certain about the records, the loan records.

I think I'd have to consult with somebody that keeps them. I am not sure just how the records are kept, but my understanding—my belief is that they are assigned to

officers that handle them, and those officers are at various offices, and you may say it's a Narberth loan because the [fol. 1375] officer it is assigned to is in Narberth, but I think it's by officer.

Q. You would know, for example, if a loan was assigned to Mr. Reller, for example, where that loan originated, would you not?

A. Yes, yes.

Q. Where would that have originated?

A. Where would it have originated?

Q. Yes, sir.

A. Well, it probably would have originated in Ambler. In most cases it would have originated in the Ambler office.

Q. Yes; and with reference to each of your loans, you would know the loan officer responsible, would you, sir?

A. Yes.

Q. So that it would then be possible, would it not, to determine the branch from which loans originate?

A. No, no. You can't say that because it may have originated in a branch and been handled by an officer who may not be in that branch.

Q. Would you explain that, sir?

A. It may have originated because of a particular location, office location, but it may be handled now by an officer who doesn't happen to be in that location.

He may be in some other office; so that to say that the [fol. 1376] loan originated in the office where the officer is would not be entirely correct; and that's why it isn't exactly —you couldn't exactly do what you say.

Q. So that in measuring the performance of your branches, if I understand you correctly, you have no way of determining the amount of loans generated in any particular branch?

A. That's correct; except for personal consumer-credit loans.

Q. All right, sir.

Now, you have given us the names of seven of your branches in which you indicated a lending officer had authority to lend up to $100,000?

A. Yes.

Q. Do I correctly understand you that there are no others?

A. I don't recall any of them.

Q. You don't recall?

A. I'd have to go over my records to make absolutely sure; but I believe—I think that's right.

Q. Just so the record is clear, you and I have not discussed your testimony before, have we?

A. What was that?

Q. You and I have not discussed your testimony prior to this time?

A. No. We have not.

Q. The purpose of my question was, sir, that you said ten, [fol. 1377] but you are able to recall these seven names?

A. I'd have to check the records to be absolutely right, so I would just be guessing.

Q. Mr. Beadle, did you make a study in 1957 with reference to your responsibilities in connection with your branch system and mergers involving Girard?

A. Yes.

Mr. Reycraft: Will you mark as Government's Exhibit No. 70 a 14-page memorandum, with attachments, dated February 7, 1957, headed "Memorandum," O. H. Beadle to Mr. J. M. Johnston, Senior Vice-President.

(20-page document, dated February 7, 1957, headed "Memorandum," from O. H. Beadle to Mr. J. M. Johnston, Senior Vice-President, was marked Exhibit G-70 for identification.)

By Mr. Reycraft:

Q. Mr. Beadle, how long prior to the preparation of this memorandum were you asked to prepare it?

A. How long prior to the preparation?

Q. Yes.

A. Oh, I don't—about two or three months, I suppose.

Q. Did you spend that much time preparing it?

A. Off and on, yes.

Q. Do you know the purpose for which this report was [fol. 1378] requested?

A. Yes.

Q. What was it?

A. I think the management of the bank—the management of the bank at that time wanted to have an over-all picture of the four-county area in which the bank could at that time and still establish branches for the purpose of seeing what potential there was and what opportunities there were for branches and mergers as far as location was concerned, and to have some idea and some plan—so that some idea and some plan could be formulated and some information obtained for the purpose of knowing just what we wanted to do and where we wanted to go, and what raw material there was available and so forth—an over-all look and planning—basis for planning, a planning idea.

Q. Mr. Beadle, what factors did you take into consideration in preparing the memorandum?

Did you study the economic growth, the projected economic growth of Philadelphia?

A. Well, let's say this—I didn't make a specific study of it, but this has been part of my job. It was something I should know and I kept abreast of figures that indicated growth, I kept abreast of population trends and things of that kind; so that the information that I used primarily [fol. 1379] was that which I knew or thought I knew.

Q. And it was part of your duties to keep up with information of this type, was it, sir?

A. Yes, yes.

Q. What were the projections which you made for growth in the Philadelphia area?

A. Projections?

Q. Yes, sir.

A. As far as the population—if my memory serves me correctly, there was little growth populationwise——

Q. Pardon me, sir, do you have a copy of the memorandum?

A. No, I don't.

Q. Let me hand you one.

A. Thank you.

The population growth in Philadelphia County was estimated to be slightly—there was very little population growth estimated to be in Philadelphia County.

Delaware, Montgomery, and Bucks County, there was indications of substantial growth.

Q. What were the geographic limits of the study which you made at the time, Mr. Beadle?

A. Philadelphia County, portions of Bucks County, portions of Montgomery County, and practically all of Delaware County.

Q. Why did you limit your study to this area?

[fol. 1380] A. Because they are the only areas under state law in which we were permitted to establish a branch.

Q. And it was the purpose of your study, was it not, to determine where you might establish branches and make acquisitions?

A. That's right.

Q. Now, what did your study show with reference to the relative growth rate of Philadelphia County and Delaware, Montgomery, and Bucks Counties?

A. As far as Philadelphia County was concerned, there were indications of very little growth potential, that is, as far as population and industry is concerned.

In Montgomery, Delaware, and Bucks Counties, there were indications of substantial growth and potential, both populationwise, commercially, and industrially.

Q. Now, what industrial statistics did you consider relevant in making your recommendations with reference to new branches and mergers?

A. For the purpose of the report, I used the figures published by the Pennsylvania Department of Labor & Industry, as far as industrial statistics were concerned.

I also had information that I had gotten from the Chambers of Commerce and various other agencies of that kind; but for specific purposes I would make an on-the-job analy-

[fol. 1381] sis, but for the purpose of this report I used general figures obtained from various publications and agencies and so forth.

Q. The figures you used you considered sufficiently reliable for the purposes for which you were using them?

A. Yes.

Q. What figures did you rely on with reference to the number of plants in each of the four counties?

A. The Pennsylvania Department of Labor & Industry's, figures published by the Pennsylvania Department of Labor & Industry.

Q. And those figures indicated a total of 6,169 plants in the area?

A. Yes.

Q. And 477,592 employees?

A. Yes.

Q. And over $7,800,000,000 of production value; is that correct?

A. Yes.

Q. And with reference to retail data, what did you rely upon?

A. The same publication of the Pennsylvania Department of Labor & Industry.

Q. And that data indicated 35,439 stores?

A. Yes.

[fol. 1382] Q. With 159,548 employees?

A. Yes.

Q. And over $3½ billion of sales?

A. Yes, sir.

Q. And with reference to wholesale trade, did you rely on the same source?

A. The same source.

Q. Indicating 5,947 establishments?

A. Yes.

Q. With over 73,000 employees?

A. Yes.

Q. And over $6,600,000,000 of sales?

A. Yes.

Q. So that this was the economic framework within which you made your recommendation for future branches and future acquisitions; is that correct?

A. Yes.

Q. Now, what factors did you include in your study in selecting a branch area?

A. The major ones were population, focal point, and competition.

Q. Will you explain the importance of the population factor?

A. Population is in the sense of people, in the sense of commerce, in the sense of industry, as the source of de-[fol. 1383] posits in the banking business. Therefore, it required a certain amount of population in order to have sufficient business to operate at a profit.

Q. Where did you look for your population figures which you considered relevant to any particular branch location?

A. The United States census figures.

Q. And within what geographic area relating to the branch site did you refer to your population?

A. A radius of about, in most cases—it depends entirely on the kind of area it is. For example, in a residential area, it requires more population than it would in an industrial area or a residential and commercial area; but generally you would use for neighborhood offices, or one in which most of your business would come from a residential type of business, usually you pick about a radius of a mile in your area for a residential office.

For an industrial or commercial office, you would have to assess and value the kind of business there was in order to determine what area you would pick; and that would depend on the area itself.

Q. And it would be this geographic area from which you would expect the branch to draw most of its business?

A. Yes.

Q. Now with reference to the focal-point factor which you [fol. 1384] referred to, what is the importance of the existence of a focal point?

A. The importance there is this—that you have to have a bank in an area which is convenient. People require—many people require convenience in banking. Therefore, you try to select an area which is most convenient so that you will get your most business; and that's the purpose of the focal point.

Usually a focal point is the area where most of the people come for shopping or for some particular reason—a transportation point, a shopping center, a business section—and that's the place where the bank ought to be if it is to be the most convenient office.

Q. Did you consider other focal points, such as the department stores?

A. Yes.

Q. And the confluence of traffic arteries?

A. Yes.

Q. Or a concentration of service centers?

A. Yes.

Q. What did you conclude with reference to the drawing power of a bank itself, without reference to the focal point?

A. That banks generally, themselves, have no drawing power as such. It usually requires them in a convenient [fol. 1385] place in order for people to come and bank, that is, in sufficient amounts to capitalize on your greatest potential.

Q. So that you felt that you had to locate a branch near one of the focal points of the type which you described in order to generate sufficient business to justify a branch?

A. Yes.

Q. Now, with reference to the competition factor, you refer at page 3 of the memorandum to establishing a branch for defensive purposes.

A. Yes.

Q. Will you explain what you mean by that phrase?

A. Yes. My purpose in saying that—that word "defensive" is my own word, but the meaning of it or what I had in mind was this—that we may have an office, an existing office, in which we have business a mile or two miles away or something of the kind, and some other bank or some other—there may be a shopping center in there or something of the kind, or maybe there isn't any shopping center at all, but some other bank decides to go in there or savings and loan or mutual-savings bank or some competitive institution would go in this area and take some of our deposits away; so that that is a reason for putting a branch in. You want to put a branch in to protect your deposits, to protect your business.

[fol. 1386] That's what defensive is.

Q. To protect business which you already have?

A. That we already have.

Q. In a particular area?

A. That's right.

Q. In other words, one of your other branches or your head office is already drawing business from this area and you want to serve it more conveniently in order to protect it?

A. Yes.

Q. Is that the general idea?

A. Yes.

Q. Now, what was your conclusion with reference to the attitude of the banking authorities concerning the amount of competition which would be tolerated for branch offices?

A. I am not certain I would call it a conclusion, but I do think that at one time—at one time other banks and the banking authorities, in effect, protected branches and other banks from undue competition by reason of the fact that banks have to make a profit or have to be profitable in order to protect the depositors; and in order to protect the depositors, therefore, the banking authorities at one time and still do, I am certain, want to be sure that there isn't any overbanking, that there aren't too many banks, so that all banks would be harmed in a particular area.

[fol. 1387] So that my thought was, and I don't think it's ever—it was ever expressed—but my feeling was that the banking authorities, before they would allow you to establish a branch, wanted to make certain first if there was a need for it; and secondly, that no other bank or even the bank that wanted to go would be harmed because it would be unprofitable.

[fol. 1388] Q. Did you find a lessening in this attitude as far as regulatory authorities?

A. My feeling has been that there has been, yes. For example, you can now cross county lines. At one time there were very few branches permitted to cross county lines from Philadelphia. You can now do that, so that there has been some slackening of that influence.

Q. In your judgment, is it a wise policy for your bank to locate a branch in an area where there are already several banks?

A. No.

I shouldn't answer categorically. In most cases I would say no. In other words, if the area is being properly served by the banks that are there, if there is adequate banking, then it isn't profitable for us to open an office in that area. If, however, the area is not adequately served, if there is not sufficient banks or if they are not properly servicing the area or supplying the needs to it, then I think you could go into the area. It depends on what the situation is.

Q. So that one of the principal factors you would consider before your making your recommendation or reach-

ing a conclusion as to a branch would be the existence of commercial banking facilities in the area?

[fol. 1389] A. Yes.

Q. Mr. Beadle, you considered in your study, did you not, the potential for new locations in Philadelphia County separately?

A. Yes.

Q. And you considered the Northeast Philadelphia area separately, did you not?

A. Yes.

Q. What were your conclusions with reference to the near Northeast area?

Mr. Price: If Your Honor please, these are his conclusions or speculations or ideas that he had several years ago. I object to this.

Mr. Reycraft: Well, Your Honor, this is a study of the market area of the Girard Bank with reference to the establishment of new branches, with reference to the existing competition, and with reference to the motivations and reasons for acquisitions which were in fact made and others which were studied but not made and may yet be made, for all we know.

Mr. Price: There is no suggestion in reference to this merger. He is talking about a general situation which existed four years ago.

Mr. Reycraft: We are talking about this market area, [fol. 1390] Your Honor, which is, I think, one of the obvious issues in the case.

The Court: I will overrule your objection.

Mr. Reycraft: Would you read the question.

(The last question was read by the reporter, as follows:)

"Q. What were your conclusions with reference to the near Northeast area?"

A. Most of the near Northeast area was adequately banked at that time. There were several potential locations in areas which were not developed at that time, which was, as a matter of fact, too undeveloped to consider it for a branch, but, in general, the near Northeast area was adequately served, except for these minimum number of locations, possible locations.

Q. You have had occasion, sir, have you not, to continue to be familiar with the banking facilities around the four-county area?

A. Yes. Not as much as before, but generally, yes.

Q. In your opinion, has there been any change in the situation which you found in 1957 with respect to the adequacy of banking facilities in the near Northeast area?

A. Well, there has been some change in that some of the areas which at that time looked to have some potential [fol. 1391] have now developed that potential to a certain degree, and there are certain possibilities in that area. For example, Roosevelt Boulevard and Adams Avenue is an example of the possible location for a branch site in the near Northeast section which, at the time I mentioned here, it has developed since then and might be a good location.

Q. So that your forecast at that time proved to be somewhat reliable?

A. Well, it looks that way.

Q. In considering location of branches in the near Northeast area, did you consider the existence of bank competition in the area?

A. Oh, yes.

Q. And who were the competitors that you found to be located there?

A. Well——

Mr. Price: Which area was this?

Mr. Reycraft: Near Northeast.

The Witness: Near Northeast.

Mr. Price: That is a large area. Any particular spot?

By Mr. Reycraft:

Q. Let us start with Kensington-Richmond area.

[fol. 1392] A. Well, in the Kensington-Richmond area there was the—at Kensington Avenue and Allegheny Avenue, specifically, is the Philadelphia National Bank and the Pennsylvania Company and the Industrial Trust Company.

Q. Did you find that these three competitors provided adequate banking facilities?

A. Yes.

Q. What did you find with reference to the industrial section around Erie Avenue?

A. That was being served by the Tradesmens Bank on Erie Avenue, the Philadelphia National Bank, and our own offices in Bridesburg, Frankford, Tacony, and so forth. There is also the Rzepski bank up there, which I didn't mention.

Q. What bank is that?

A. The Rzepski at that time. It is not in existence now, but at that time it was the Rzepski Bank. In other words, this report does not have all of the banks up there, but the principal banks.

Q. Would this report your major competition?

A. Yes.

Q. Now, with reference to the North Central and Northwestern portions of near Northeast Philadelphia, what did you find concerning existing competitive commercial banks? [fol. 1393] A. That is the north central and northwestern portions of Northeast Philadelphia?

Q. Of near Northeast.

A. They were adequately served by banks.

Q. Did you find that there were other competitive banks located in the area?

A. Yes, there were, along with mutual savings societies, savings and loan associations, and so forth.

Q. Will you name the four competitive commercial banks you referred to in your memorandum.

A. I believe that would be Fidelity-Philadelphia Trust Company, the Philadelphia National Bank, the Pennsylvania Company, and Provident Tradesmens.

Q. And you found that that area was adequately served?

A. Yes.

Q. Now, with reference to the northwest and west portions of the near Northeast, what were your findings?

A. There was some banking potential in that area. Some parts of it had physical characteristics which made it undesirable for branch location, because it set it off in such a way that you couldn't capitalize on some of the potential that was there. However, there were highway facilities planned which would alleviate that to some extent, and that was one part of that near Northeast which had some [fol. 1394] potential at that time. There were two small

banks in there. I think there were two. The Cheltenham National Bank was in that area. I forget the other bank that was in that area, but it did have some potential because of the fact that it did cover such a wide territory, such a wide area, and the fact that there may be some street improvements and highway improvements that would enable you to capitalize on the potential that was there.

Q. Why did you find physical characteristics to be a problem?

A. Because it had to do with convenience. For example, Roosevelt Boulevard at Adams Avenue comes into a two-lane highway from a very wide three-lane highway, or six-lane highway, I suppose. It is a traffic hazard. There are some railroad tracks alongside of Sears and Roebuck, and foot people don't cross that barrier, so that if you take a population count in that area it would show sufficient population, but you wouldn't be able to capitalize on it because the population goes in different directions and their is really no focal point.

Q. In other words, people won't cross that busy highway or the railroad tracks?

A. Well, in this case that is right.

[fol. 1395] Q. That was your conclusion?

A. Yes.

Q. Now, with respect to the far Northeast of Northeast Philadelphia, what were your conclusions with reference to the potential for new offices?

A. I found that there was a great deal of potential in the far Northeast.

Q. What did you find with reference to existing competitive commercial banks in the area?

A. A lot of this area was totally undeveloped. There was very little competition. There were very, very few banks in the area.

Q. There were very few competitive banks in the area?

A. Considering the size of the area as compared to others of equal size.

Q. So you thought that this area might have some potential for a branch?

A. Yes, because of its undeveloped condition and the fact that it certainly would develop.

Q. Has the area developed since that time as you expected?

A. A great deal of it has. Some is still undeveloped and will continue to be.

Q. And have you located an office in that area?

[fol. 1396] A. Yes, we have.

Q. What would be the address of that office?

A. Roosevelt Boulevard and Comly Street.

Q. When was that office located in the area?

A. Just about two months ago.

Q. Have any of your competitors located offices in this general area in the meantime?

A. In this very general area, the far Northeast, yes.

Q. You have broken it out in your memorandum as the far Northeast?

A. Yes.

Q. I am referring to the geographic designation that you utilized.

A. Yes.

Q. Which of your competitors have located offices in this area?

A. Second National Bank, the Western Saving Fund Society, the Frankford Trust Company. The Liberty Real Estate, I believe, either has an application in or has a branch. Fidelity-Philadelphia Trust Company. There may be others, but I don't recall.

Q. Were all these located since you made your study?

A. Yes.

Q. With reference to West Philadelphia, what were your conclusions with reference to the existence of possible [fol. 1397] branch sites?

A. The West Philadelphia area was pretty generally developed, well developed as far as population and banking potential was concerned. In most of its good areas it was adequately banked, although there were some areas in which there were possible branch sites or locations.

Q. Which of your competitors had offices located in this area?

A. Philadelphia National Bank, First Pennsylvania Company, Broad Street Trust Company, Tradesmens, Central Penn.

Q. Have you since located a branch in this area?

A. Yes.

Q. Whereabouts, please?

A. On 63rd Street just south of Girard Avenue.

Q. And did you conclude, with reference to this area, that it was adequately banked as a whole at that time?

A. Yes.

Q. Now, with reference to Southwest Philadelphia, what were your conclusions with respect to the adequacy of banking facilities?

A. That this was a well developed area, adequately banked, except for certain small numbers of possible locations.

[fol. 1398] Q. Did you find that the banking facilities were in general adequate?

A. Yes.

Q. Did you conclude that additional banking facilities were or were not necessary?

A. As a whole, they were adequate banking facilities, and additional facilities were not necessary except in certain areas.

Q. Did you find, with reference to the location at 54th and Chester Avenue, any effect on its market potential by reason of existing competition?

A. There were no banking facilities in that area. However, there were banking facilities on the branches of the area. Therefore, the area was limited because of the facilities on its branches.

Q. About how far away were those facilities?

A. I suppose it is about a mile in either direction, half a mile to a mile east and west of that particular area.

Q. And did you find that the existence of this competition circumscribed the area which could be served by a location at 54th and Chester Avenue?

A. Yes.

Q. What were your conclusions with reference to the [fol. 1399] area surrounding 68th and Elmwood Avenue?

A. 68th and Elmwood Avenue had some banking potential.

Q. What was your conclusion with reference to the necessary pre condition for the opening for a branch in that area?

A. That it would have to be a low-cost office.

Q. Did you also conclude that some development should take place in the area?

A. Some developing should take place?

Q. Development.

A. Yes.

Q. Why was this of importance in your determination whether or not to locate a branch in the area?

A. Why was it important?

Q. Yes.

A. Primarily because there was a limited amount of banking potential there, and there was vacant ground, and there was undeveloped ground in that particular area which seemed ripe for development, and therefore if it did develop, it would have made a better location for an office.

Q. Would it be fair to say that when the business developed in the area, then it would be appropriate perhaps to locate a branch?

[fol. 1400] A. Well, certainly, the more business in the area, the better it would be, though it was fairly well developed as far as a branch site at that time.

Q. Now, with reference to the West Philadelphia area as a whole, what was your conclusion at that time?

A. That it was very well developed, that in most of its important locations or most of its important areas, most of its focal points were adequately banked except for those which were noted in here (indicating).

Q. So that as a whole it had little potential for new bank offices?

A. That's right.

Q. Now, with reference to Germantown, Roxborough, and Chestnut Hill what were your conclusions with reference to the adequacy of the banking facilities?

A. That that as a general area was again well developed, adequately banked, though there were certain areas which seemed to have banking potential, certain portions of the area which seemed to have banking potential.

Q. Were competitors of your banks located in this area?

A. Yes.

Q. Who were they?

A. First Pennsylvania Company, Tradesmens Bank, [fol. 1401] Broad Street Trust Company, and offices of those banks, of those same banks.

Q. What was your conclusion with reference to the possibility of an office in the Mt. Airy section?

A. It had been suggested to us a number of times as having banking potential, but our indications were that it was limited in banking potential.

Q. Have events since that time satisfied you that your conclusion was correct?

A. Well, there hasn't been any change in the area, although some people think it is a good location for a bank. I don't. There hasn't been any change.

Q. Now, with reference to the Chestnut Hill area, what did you find concerning the adequacy of the banking facilities there?

A. I felt there was adequate facilities, though again there is some question—we have had that recommended on many occasions. My personal opinion is that that is adequately served.

Q. You refer in your study to two commercial banks located in this area. What are they?

A. First Pennsylvania Company and the Broad Street Trust Company.

Q. What was your conclusion with reference to the [fol. 1402] future potential of the Chestnut Hill area for an office?

A. That it lacks potential in the future or would continue to lack potential.

Q. Because it was becoming decentralized?

A. It would become less of a focal point. The area itself would not become less important, but since it was adequately served by banking facilities, and the fact that the outskirts of Chestnut Hill were being built up and developed, that banks would be located in those sections, those developed sections, therefore taking away from the importance of Chestnut Hill as a banking site.

Q. What was your conclusion with reference to the adequacy of banking facilities in the Roxborough-Manyunk area?

A. That it had little banking potential.

Q. And you found the First Pennsylvania Company there, did you not?

A. Because of the facilities, yes.

Q. With reference to North Central Philadelphia, what were your conclusions concerning the adequacy of banking facilities?

A. Certain portions of it had no banking potential. Other portions had reasonable banking potential, though in a [fol. 1403] great portion of the area it was adequately banked.

Q. What banks had offices located in this area?

A. Fidelity-Philadelphia Trust Company, First Pennsylvania Company, and that's all of the commercial banks.

Q. Did you conclude that there was some possibility in this area for an office?

A. Yes.

Q. What type of office?

A. A neighborhood office, a low-cost office.

Q. What were your conclusions with reference to the adequacy of banking facilities in South Philadelphia?

A. That generally it afforded little opportunity for branch sites, except in certain specific areas.

Q. Have you opened any offices in that area in the meantime?

A. Yes.

Q. Whereabouts?

A. 24th and Passyunk Avenue.

Q. Is this what you described as a low-cost office?

A. No, this is a neighborhood office, not a low-cost office.

Q. Could you distinguish, for me between the two?

A. I use the term "low cost" in the sense that you want [fol. 1404] to keep your costs down because of either one of two things, because there isn't the potential there, though you may want to, for defensive reasons, have an office, or for providing additional service to some office you already have, or in an area where the potential hasn't yet developed and you want to put an office to grow with the community, and therefore you want to put a smaller low-cost office. A low-cost office, for example, wouldn't have a vault or safe deposit boxes, which are heavy expense. So Washington Lane and Stenton Avenue is not a low-cost office.

Q. Would you put it in the intermediate range?

A. Yes.

Q. In South Philadelphia you found only one opportunity for a branch location; is that correct?

A. Yes.

Q. And where was that?

A. South Philadelphia? 24th and Passyunk Avenue.

Q. What was your conclusion with reference to the Philadelphia County as a whole?

A. That a great deal of the general area was already well developed, adequately banked, except for locations that could be spotted throughout, and in the far Northeast, which had a good deal of potential.

[fol. 1405] Q. But for the most part the possibilities which existed were for low-cost, low-profit offices; is that correct?

A. Except in the far Northeast.

Q. With reference to Bucks County, what were your conclusions concerning its potential as a whole?

A. Bucks County had developed for banking purposes in its eastern section, though it hadn't developed as strongly in its central or western portions. Banking facilities had kept pace with the development in the eastern section, and therefore it was still in the development stage as far as I was concerned, as it related to branch locations.

Q. Did you find that large parts of Bucks County were at a considerable distance from the economic influences which affected growth?

A. Yes. The northwestern and certain parts of the central portion of Bucks County, in my opinion at that time, had not developed to the extent that most of the Delaware Valley had.

Q. What conclusion did this lead you to with reference to the necessity for new banking offices there?

A. In those areas there was no necessity.

Q. Now, with reference to Lower Bucks County, what was [fol. 1406] your conclusion concerning the adequacy of banking facilities?

A. That they were adequate at the time and banking facilities had kept pace at that time with development that had occurred.

Q. This was a rapidly growing area, was it not?

A. Yes, indeed.

Q. Nevertheless, banking facilities had kept pace with the growth?

A. Yes.

Q. Concerning Central Bucks County, what did you conclude concerning the type of focal points available for development in the area?

A. There had been development in the central portion, though it had been scattered around and had not been concentrated at that time, and there were few focal points available for branch locations.

Q. As to the existing focal points, what was your conclusion concerning the adequacy of the banking facilities?

A. That they were adequately banked.

Q. And what effect did the development in the area have on the potential for new offices?

A. At that time very little because of the scattered development.

[fol. 1407] Q. Were there any other reasons related to the actions taken by existing banks in the area?

A. What focal points there were had been banked, adequately banked, and there wasn't any necessity for additional banking facilities in those locations.

Q. And as the area grew, did you find that the existing banks were taking care of the community requirements?

A. Yes, at that time.

Q. What was your conclusion concerning the potential in Upper Bucks County for bank offices?

A. Very little, because it was largely rural and undeveloped for banking potential.

Q. Expressing it differently, were there any focal points?

A. No, very few.

Q. Concerning Montgomery County, what was your conclusion concerning the availability of focal points?

A. At that time Montgomery County was growing very rapidly, though there were still substantial sections of the area which were ripe for development. However, focal points that existed were adequately banked at the time.

Q. Despite the fact that there was considerable growth in the area, existing banking facilities were keeping up with the community's needs; is that correct?

[fol. 1408] A. Yes, although, as I pointed out, there was room for substantial development, which was continuing.

Q. And you concluded, did you not, that the new growth was largely adding to the potential of existing facilities

rather than providing new opportunities for branch offices?

A. In certain areas, yes.

Q. What did you conclude with reference to the percentage of increase in bank locations in that area through new branches of local banks?

A. Banking locations at that time had increased 43 per cent through branches of local banks.

Q. What did you conclude with reference to the adequacy of banking facilities at the principal focal points on the main line?

A. That there were adequate facilities.

Q. You referred to the fact that center city banks have filed applications for branches in Haverford and Wayne. What banks were they, sir?

A. I think the Pennsylvania Company in both cases.

Q. In both cases?

A. I think it was, yes. I don't recall, really. I know the Pennsylvania Company in Wayne, but I don't recall the other.

Q. What was your conclusion concerning the adequacy of [fol. 1409] banking facilities in Ambler, Conshohocken, Lansdale, and Norristown?

A. That they were adequate.

Q. And were branches of Philadelphia banks located in those areas?

A. In Norristown and Conshohocken. Not in Ambler, but in Norristown and Conshohocken, there were local banks.

Q. Which Philadelphia banks?

A. Philadelphia National.

Q. In both places?

A. In Conshohocken and in Norristown.

Q. So what was your over-all conclusion concerning the potential for new bank offices in Montgomery County?

A. That its principal existing focal points at that time were adequately banked, although there were areas of Montgomery County which had substantial potential.

Q. Concerning Delaware County, what were your conclusions concerning the potential for new bank offices in that area?

A. That there was little opportunity for additional branches except in certain locations.

Q. What did you conclude with reference to the growth of the area and the growth of the banking offices?

A. That banking facilities had kept pace with the growth [fol. 1410] in the area.

Q. And banking offices had increased as of the time of your report by 63 per cent of 1950?

A. That is correct.

Q. And including unopened offices, increased 81 per cent?

A. That's right.

Q. Were these all branches of Delaware County banks?

A. No, they were not.

Q. Were there any Philadelphia banks included?

A. Yes.

Q. Which ones?

A. I am not certain 1957, though I am certain there were Philadelphia banks. I am not certain which ones they were.

Q. Who is out there now?

A. Fidelity, Philadelphia National, Fidelity-Philadelphia, Broad Street Trust Company, Tradesmens. I think that is all.

By Mr. Littleton:

Q. When you say Tradesmens, you mean Provident Tradesmens?

A. Provident Tradesmens.

[fol. 1411] By Mr. Reycraft:

Q. And your over-all conclusion concerning the potential for new offices in the entire four-county area was what, sir?

A. Where growth had been concentrated to the extent that it created first-class opportunity for branch locations, it would be accompanied by an equal growth in banking facilities.

Where growth in certain areas had developed around existing facilities and provided additional potential for these facilities, rather than creating new opportunities for new branches.

There were some areas in which limited growth had been scattered over wide sections, which diffused the banking potential, and although there were no prime locations available at that time, there were certain opportunities that did exist in that four-county area.

Q. And what were those opportunities?

A. They were locations in comparatively undeveloped areas, or locations in which there appeared to be little growth possibilities, but did contain some limited banking potential.

Q. With reference to the first type of opportunity that you described, did you characterize those as risk areas?

[fol. 1412] A. Yes.

Q. What did you mean by risk areas?

A. Again that is my term. What I meant by that was that it is an area in which there was banking potential, but to put an office in there you ran the risk of guessing wrong and not having the potential created, or even if the potential did become existent you might have picked the wrong location in that spot, so that in either case you were running a risk of putting an office in there before the potential actually existed.

Q. So as far as that category of opportunity is concerned, at the time of your report, the areas were adequately banked; is that correct?

A. Yes.

Q. What was the third category of opportunities which you described?

A. Areas in which there are already adequate banking facilities, such as Ardmore and Chestnut Hill. They were areas in which you might put a defensive office.

Q. Again by this do you mean that you already had business coming out of this area?

A. In some cases, yes.

Q. You didn't have an office there, but you did have bank-

[fol. 1413] ing business that originated in this area?

A. That is right.

Q. And where was this business served from?

A. I don't know, really.

Mr. Price: What was that answer?

The Witness: I don't know where it was served from.

By Mr. Reycraft:

Q. Have you observed occasions when business in the outlying areas would be served by the head office?

A. Yes.

Q. Would this happen frequently?

A. We have a lot of accounts of people whose addresses are outside of the city that come into work, and so forth, that will bank at our head office.

Q. There are many people within the area and many businesses who choose to do business——

A. Businesses?

Q. Yes, sir.

A. Yes, I would say so.

Q. And they choose to do business at the head office?

A. I will amend that. No, there aren't—that choose to do business at the head office. There are a number, but I don't know that they are——

[fol. 1414] There are some, yes, but I don't think there is a substantial amount.

Q. What do you mean by substantial?

A. Well, there is some people that for some reason or other want to do business at the main office. Most people, however, are more interested in convenience, and they aren't doing business at the head office, so we do have a number of people. I don't know how many.

Q. But you don't think there are many percentagewise?

A. Not businesses. Individuals, yes; because a lot of people will come in the center part of the city to work and bank at the head office.

Q. But you find that businesses do not do this?

A. Some businesses do, but generally I would say that they will deal where the officer is.

Q. Which would be at the branch?

A. Yes.

Q. Do I understand you correctly to say that the number of businesses located out in the distant area, say a few miles from the main office, the number of these which do business at the head office is not substantial?

A. I don't know, really. I will say this, that I do know, yes. Let me say this, that business deals with the officer who handles and knows their affairs. Most of our lending [fol. 1415] officers are at our main office. Therefore, a great amount of business is done at our main office. I don't really know how many there are compared to the total number of loans that we have or amount of business we have.

Q. I understood you to say earlier that the number of

businesses who conduct their banking affairs at the main office was not substantial. Was I wrong?

A. I don't know whether you are wrong or not. I don't know. What I mean is that out of our total number of loans, that is, businesses, or business that deals with us, I don't know how many do business at the main office compared to all of our other offices. I think a lot of it has to do with what we are calling business. For example, I would say that every businessman in Mayfair that does business with our bank does business at our Mayfair office and does not come down to the main office. On the other hand, if it is a large borrower who is handled by one of our loaning officers, he may come down and do business at the main office because the loaning officer is there to handle it, but proportionately I don't know how much is done at the main office and how much is done at the branches.

Q. So if I understood you to say earlier that the amount [fol. 1416] of banking business done at the main office by businesses located throughout the four counties was not substantial, that would not be correct; is that right?

A. I don't know whether it is correct or not. I don't know.

Q. I thought I was accurately stating what you said.

A. I know, but I amended that. I don't really know, honest.

Q. What is your conclusion now, sir? I would like to have the record straight, however you want to do it.

A. My conclusion is that I don't know what percentage of business is done by business at our main office compared to our branches. My guess would be that most businesses do business at our branches.

Q. You don't have any way of finding out?

The Court: He said he could reconstruct it, didn't he?

Mr. Reycraft: That is what I understood, Your Honor.

The Witness: That's the only way it could be, I guess.

The Court: How important is it that this be brought out? [fol. 1417] Mr. Reycraft: Well, Your Honor, I think it is not vital that it be brought out precisely correct, but I think a general idea where the commercial business is done is important.

The Court: We will recess at this time till 2:00 o'clock.

(Recess taken at 12:30 P.M. until 2:00 o'clock P.M.)

[fol. 1418] [File endorsement omitted]

AFTERNOON SESSION

Present: Counsel as before noted.

ORVILLE H. BEADLE, resumed.

Mr. Reycraft: Will you mark as Government's Exhibit No. 71 a seven-page document headed "Girard Trust Corn Exchange Bank Report By Offices, Gross Deposits, Gross Operating Income, and Total Operating Expenses."

(Seven-page document entitled "Girard Trust Corn Exchange Bank Report By Offices, Gross Deposits, Gross Operating Income, and Total Operating Expenses," was marked Exhibit G-71 for identification.)

Direct examination. (resumed)

By Mr. Reycraft:

Q. Mr. Beadle, I hand you Government's Exhibit No. 71——

Mr. Littleton: Will you wait a minute?

Mr. Reycraft: Oh, surely.

Mr. Littleton: Do you have any more copies?

By Mr. Reycraft:

Q. Mr. Beadle, I have handed you Government's Exhibit No. 71, a report by offices of the Girard Trust Corn Exchange Bank.

[fol. 1419] Are you familiar with this report?

A. Yes, sir.

Q. What does it show?

A. It shows the average gross deposits, the earnings on deposited funds, other operating income, and total income on the income side.

And on expenses, direct salaries, employee benefits, interest paid on deposits, other operating expenses, and total expenses.

Q. Now, referring, sir, to the second column, earnings on deposited funds, can you tell us what the source of these earnings is?

A. From the deposits?

Q. Yes. Where do the earnings come from?

A. (No response.)

Q. What do you do with the deposits which generates earnings?

A. We earned—well, it goes into loans.

Q. You make loans with them?

A. Yes.

Q. You make loans with them?

A. Yes.

Q. What else do you do with them?

A. Make investments with them.

Q. Do the branches make investments?

[fol. 1420] A. No.

Q. Well, I suggest, sir, isn't it a fact that this column indicates earnings on loans which originate from the branches?

A. No. I don't believe so, sir.

Q. But it includes earnings on loans which originate at the branches?

A. Yes, yes.

Q. So that you would know with respect to each branch what its total earnings are?

A. Oh, yes.

Q. And I assume that someone in the bank, at least, would know what goes into those earnings; that is, what part of the earnings comes from loans?

A. Yes, I would presume so.

Q. Would it logically follow that somewhere there must be a breakdown of loans which originate in the branch in order to break out the earnings attributable to the branch?

A. I don't think so.

Q. Well, I must say I don't understand that. Can you explain to me how you can derive earnings on deposited funds, which includes loans, and attribute them to the branch, without knowing what loans are attributed to the branch?

Mr. Price: May I interrupt a second?

Mr. Reycraft: Yes.

[fol. 1421] Mr. Price: I don't know whether Mr. Beadle had anything to do with preparing this schedule.

Mr. Reycraft: Well, he indicated his familiarity with it

and I am trying to find out from him, as senior vice-president of the bank, where this information may be located.

Mr. Price: Sure.

Mr. Reycraft: Now, if you can tell me, if you happen to have it, I really don't know the answer to it.

Mr. Price: I don't know, either, but may I ask him, did you have anything to do with preparing these sheets?

The Witness: No, I did not.

Mr. Price: Sir, I just saw them for the first time five minutes ago and I didn't know whether you knew about them.

The Witness: I have seen this report, but I had nothing to do with the preparation of it.

Mr. Price: I see.

Then ask him whatever you want.

Mr. Reycraft: I believe your associates will confirm that this document was furnished to us by the Bank.

Mr. Price: That's all right; in answer to one of the questions. That is true.

[fol. 1422] Mr. Reycraft: That is right.

Mr. Price: But I personally hadn't seen it and therefore don't know how it was compiled. That's why I was asking Mr. Beadle if he knew.

Mr. Reycraft: Yes.

By Mr. Reycraft:

Q. Well, Mr. Beadle, what I am trying to find out is, you are familiar in general with the way your branches operate. You are familiar with the fact, I suppose, that you must have some sort of a basis to evaluate the operations of the branch?

A. Yes.

Q. Is that correct?

A. Yes.

Q. And in connection with that you would want to know what its deposits are, what its earnings are?

A. Yes.

Q. What its operating income is and total income is?

A. Yes.

Q. And all of this information is set forth in Government's Exhibit No. 71?

A. Yes.

Q. Is that correct?

A. Yes.

Q. Now, on the basis of your familiarity with this bank's [fol. 1423] operations, isn't it a fair assumption for me to make that someone in the bank had to know the amount of earnings derived from loans attributable to each branch in order to come up with a figure of earnings on deposited funds?

The Court: Just looking at this, Mr. Reycraft, isn't there a pretty consistent figure there, between the deposits and the earnings, a factor of somewhere between thirty and forty, that would work out pretty much?

I don't say it would come out exactly right, but you take an average per thousand of somewhere between thirty-five and forty; wouldn't that be pretty consistently so?

Mr. Reycraft: Yes, sir; on the earnings, that would appear to be consistent.

The Court: As between earnings and deposits.

This looks like an allocation to me, a statistician's allocation, based on a deposit formula.

Mr. Reycraft: If this is true——

The Court: It might well be or it might not be.

Mr. Reycraft: This is what I would like to find out.

The Court: Yes.

[fol. 1424] By Mr. Reycraft:

Q. Do you have any knowledge——

A. To the best of my knowledge, I believe that what this is is a formula or a cost analysis or a cost formula and an earnings formula which is set up by our Comptroller's Department, and these earnings are based on whatever figures are used in that Comptroller's Department in order to allocate them to each office.

Q. So then, do I understand that what you do is distribute the earnings of the bank over all of the branches?

The Court: There must be somebody in the bank who would have a more intimate knowledge of that.

By Mr. Reycraft:

Q. Who would know that?

A. Our comptroller.

Q. Is that Mr. Hoffa?

A. Mr. Hoffa.

Q. All right. Perhaps that's the best we can find out.

Mr. Beadle, in your survey, Government's Exhibit No. 70, you concluded your study of the banking potential resulting from the possible establishment of new branches in the four-county area and concluded that there was little opportunity for profitable operation in that area; is that correct?

[fol. 1425] The Court: Read that back.

Mr. Reycraft: For new branches?

The Court: Read that back.

(The reporter repeated the pending question as follows:

"Q. Mr. Beadle, in your survey, Government's Exhibit No. 70, you concluded your study of the banking potential resulting from the possible establishment of new branches in the four-county area and concluded that there was little opportunity for profitable operation in that area; is that correct, for new branches?")

The Witness: Let me say this—when you are speaking about the general area, you are talking about a very very large area. If we speak in general, that's true; but by the same token there's still potential for branch locations in that area.

By Mr. Reycraft:

Q. At the time you made the report you thought it was quite limited; is that correct?

A. When you relate that to the entire area.

On the other hand, even in that case there are quite a number of locations for branches in the area.

Q. There are quite a number of locations for what you [fol. 1426] described as low-cost branches?

A. Yes.

Q. Now, what did you conclude with reference to the cost of establishing new branches on the basis of your survey?

A. I have concluded that in most cases you would have to tailor your cost to fit the type of office that you might want to install in any one of these locations, or at least some of these locations.

Q. And did you conclude that the type of facilities that

you would be able to offer in these areas would be, I believe the phrase was used, would have been "services and personnel which have been foreign to this bank"?

Did you use this phrase?

A. Yes.

Q. What did you mean by that?

The Court: What page is that?

Mr. Reycraft: That is at the top of page 10, Your Honor.

The Witness: What I meant by that was this—that all of the offices of our bank provided full service to the extent that we had vaults, safe-deposit boxes, and so forth.

In some of these offices, particularly in those offices that I have termed as risk offices, until the direction of that [fol. 1427] potential could be determined, then I felt that we should put a branch in in which those costs were tailored, and by tailoring primarily I meant you wouldn't have a vault, you wouldn't have safe-deposit boxes until such time as you determined where you actually wanted to arrive at a final location for this so-called risk office, branch office.

By Mr. Reycraft:

Q. And you concluded, did you not, that protective devices, equipment, and furnishings all would be provided with this cost factor paramount?

A. That's right. In other words, instead of putting marble in, maybe you'd put some other kind of material or something of that sort.

Q. And did you conclude that the quality and quantity of personnel might be affected?

A. Yes. In other words, the quality of personnel had to do with in a very small office you don't need a topnotch officer to handle it in the sense of high-priced officer to handle it because that kind of experience may not be necessary.

Q. What did you conclude was the principal motive for establishing branches?

A. Profit.

[fol. 1428] Q. Did you conclude that there was much opportunity for profit in the branches you described?

A. In most of the offices which I have called low-cost

offices, you would have to tailor your costs in order to arrive at a profit.

Some of the potential offices, the profit motive or the profitability was there in the potential.

Q. What then did you conclude was the most likely step to increase the bank's profits?

A. Is to establish or participate in the growth of the area, the contiguous counties to Philadelphia.

Q. And what did you conclude was the only way to do this?

A. I concluded that one way to do it would be to establish new branches, but if you wanted to substantially do it and participate quickly in an entire area, the best way to do it was by merger.

Q. This is cheaper and more profitable than establishing new branches; is that correct?

A. I would say yes; that's correct.

Q. Now——

A. I am not so sure about the cheaper part.

Q. That is perhaps under ordinary circumstances.

Now with reference to the merger possibilities, did you survey the area generally to determine what possibilities [fol. 1429] might be available?

A. Yes.

Q. And you surveyed Philadelphia County, did you?

A. Yes.

Q. What banks did you consider as a possible candidate for merger in Philadelphia County?

A. The two principal ones were the Pennsylvania Company and the Philadelphia National Bank.

Q. That's the First Pennsylvania Company?

A. The First Pennsylvania, I am sorry.

Q. Yes; and what did you consider would be the advantage of a merger with the First Pennsylvania Company?

A. The advantages of a merger with the First Pennsylvania Company would be by reason of the fact that it had extensive branch coverage, which means convenience to the banking potential; and secondly, the advantage of size.

[fol. 1430] Q. Now, you concluded, did you not, that a merger with the First Pennsylvania would give the resulting bank about 25 per cent of the existing commercial banking facilities?

A. That is correct, in Philadelphia.

Q. What was your conclusion with respect to the duplication of facilities if these two banks merged?

A. There would be extensive duplication with the First Pennsylvania Company.

Q. What form of duplication?

A. There would be branches in the same localities. For example, our main office and the Pennsylvania Company have two offices downtown just across the street. In North Philadelphia there is duplication, and so forth.

Q. What other duplication would there have been?

A. Well, on Germantown Avenue they have an office and we have an office. In Germantown they have an office and we have an office. I don't recall others, but I am sure there are others.

Q. Did you conclude that there would be the same duplication of existing commercial banking facilities in any merger with center city banks?

A. No.

Q. You concluded, however, did you not, that this would [fol. 1431] be the case in almost any merger with center city banks?

A. There would always be duplication with the main office of the center city bank.

Q. What was your conclusion with reference to your study of the proposed merger with the Philadelphia National Bank at this time concerning the duplication of center city facilities?

A. Except for its main office, there would be very little duplication. As a matter of fact, it would be complementary. There is very little duplication of the Philadelphia National Bank's offices and the offices of the Girard except in the downtown office, but other offices are not duplicated; they are complementary.

Q. Where are the head offices of the two banks with reference to each other?

A. Across the street.

Q. Did you also study the possible merger with the Central Penn Bank?

A. Yes.

Q. And what was your conclusion on that one?

A. The conclusion on Central Penn, they would not have

the same advantage as mergers with the other two, but they had several good branch locations that would be comple-
[fol. 1432] mentary and complementing our own offices.

Q. Did you also study merger with Fidelity-Philadelphia?

A. Yes.

Q. And what was your conclusion on that one?

A. That they had several good locations in and out of the city, but they weren't as desirable locations from our standpoint, and a merger, therefore, was not as desirable.

Q. What other banks in Philadelphia County did you consider merging with?

A. Liberty Real Estate Bank and Trust, the Frankford Trust, and the Industrial Trust Company.

Q. What was your conclusion on these?

A. That they would not be as desirable as the first two. One of the reasons for this is that this report was made primarily from the standpoint of location, that I was looking primarily at locations, and not other reasons for mergers, which, of course, would be inherent in any bank.

Q. Did you also study possible bank acquisitions which could be made in Delaware County?

A. Yes.

Q. What was your conclusion with reference to the county as a whole?

A. As far as Delaware County is concerned, my conclusion was that there were two banks which were particu-
[fol. 1433] larly desirable from the standpoint of their locations, as far as our merger was concerned.

Q. Were there only two independent banks in the county at the time?

A. I am not sure, but I think there were.

Q. I believe you said two, sir.

A. If it says two in here—I forget whether it was or was not.

Q. Subsequently did the Girard acquire one of these banks?

A. Yes.

Q. Which one?

A. Upper Darby National Bank.

Q. How many offices did Upper Darby National Bank have?

A. My recollection is that they had 12 at the time.

Q. I believe the report indicates 18.

A. I think 18 is both the Upper Darby and the Delaware County National Bank.

Q. And did you also study Bucks County to determine whether there were any possibilities of acquiring banks in that area?

A. Yes, I did.

Q. What was your conclusion?

A. That there were several banks, one or two banks, in [fol. 1434] Bucks County that had locations which might be desirable from our standpoint.

Q. Did you make any acquisitions in Bucks County?

A. No, we did not.

Q. Did you discuss merger with any of the banks in that area?

A. Yes, we did.

Q. With which ones?

A. I think one with one of the Bristol banks. I think also with the bank in Langhorne.

Q. Why didn't these acquisitions take place?

A. Well, the Bristol banks were merged with some other Philadelphia bank, other Philadelphia banks, and the Langhorne Bank merged with another Philadelphia bank.

Q. Which banks were they?

A. Langhorne merged with the Central Penn. One of the Bristol banks merged with Philadelphia National. The other Bristol bank merged with the Fidelity-Philadelphia Trust Company.

Q. Were there any banks left in Bucks County after that?

A. Oh, yes.

Q. Now, with reference to Montgomery County, did you study that area to determine whether there were any possible bank acquisitions to be made?

[fol. 1435] A. Yes, I did.

Q. And what was your conclusion in that area?

A. That there were a number of banks with locations that would be desirable as far as we were concerned.

Q. And did you thereafter acquire some of these banks?

A. Yes, we did.

Q. Which ones?

A. The National Bank of Narberth and the Ambler National Bank.

Q. Did you discuss merger possibilities with other banks in this area?

A. I did not.

Q. To your knowledge, did anyone in your bank?

A. Yes, yes.

Q. Which ones?

A. The Montgomery-Norristown, Bryn Mawr Trust Company, the Jenkintown Bank and Trust Company, Bank of Old York Road.

Q. And who held those discussions, do you know?

A. I am not sure there were discussions. I think they were more indication of preliminary——

Q. Indication of interest, would you call it?

A. That is about right, yes.

[fol. 1436] Q. Do you know the identity of the person who evidenced your bank's interest?

A. Yes, I think Mr. Geoffrey Smith.

Q. In each case, so far as you know?

A. I don't believe so, no. I am not sure of that. I am not certain whether Mr. Smith talked to each one of them or not. I do know that he talked with one. I think one of our loaning officers has a friend that talked with another one, and it was that kind of thing.

Q. Do you know why these acquisitions were not made?

A. I know what they said. They said they didn't want to at the time, so I suppose that was the reason.

Q. The banks weren't interested in being merged?

A. At that time, yes.

Q. Was it a question of price?

A. I don't know, because some of them actually are merging now, but not at that time they weren't, so I don't know what their reason was then.

Q. To your knowledge, were any reports made of these discussions or indications of interest? Have you seen any such reports?

A. I am sorry?

Q. Have you seen any written reports describing these [fol. 1437] indications of interest, as we call them, or negotiations, or discussions, or whatever they were?

A. I don't think in connection with any of these banks, no.

Q. Your information on these came orally?

A. As far as I remember, yes.

Q. Now, you concluded, did you not, with a program of merger which you suggested to your bank for consideration?

A. I have a list. I wouldn't call it a program.

Q. How many banks are on the list?

A. Ten.

Q. You have another list headed "Groups." What do you mean by that designation?

A. Well, that primarily was an area. For example, take the last group there. You might call it the York Road area—which is a very general area—in which these offices have the best locations in that area.

Q. Were these groups you were proposing for consideration as to acquisition?

A. I would say yes, except that you will notice in here I make note of the fact that we probably will never be able to do it, but since this was a very general report, which, incidentally, was part of a series of reports which were written at that time, I included everything that was there, [fol. 1438] whether it was feasible or not. It was the entire picture, that's what it was.

Q. I didn't understand what you meant by a series of reports. Do you mean other than what is contained in this particular document which you have before you?

A. Well, at or around this time our management of the bank decided that they would like to have a picture, a five or ten-year picture, of all segments of the bank. Now, it happened at that time that I was in charge of the branches, and I wrote a report on branches. There were reports written from the same point of operations. There was a report, I think, from the standpoint of loans, and this was a plan, or it was a collection of specialized information gotten up for our senior management in order to give them a picture upon which they could make some plan. This happened to be one of the reports.

Q. With reference to the list of ten banks, individual banks, which you have included on Page 10, did Girard acquire any of these banks?

A. Yes. The Upper Darby National Bank, the National Bank of Narberth, the Ambler National Bank.

Q. Do you know whether any of the other banks on that list were acquired by other Philadelphia banks?

A. Peoples National Bank was acquired by Central Penn. [fol. 1439] The Huntingdon Valley Trust Company was

acquired by the First Pennsylvania Company. The Jenkintown Bank and Trust Company is merging, hasn't yet merged, with the Industrial Trust Company.

Q. Has Delaware County National Bank been acquired?

A. No, it has not.

Q. Is that the only remaining bank in Delaware County?

A. It is the only unit bank in Delaware County.

By the Court:

Q. How old a bank is that?

A. Delaware County National Bank? Oh, it is at least 50 years old, I guess.

Q. Has there been a bank started in Delaware County in the last 20 years?

A. What was that, sir?

Q. Has there been a bank started in Delaware County in the last ten or twenty years?

A. No, sir. There has in Montgomery County, but not in Delaware County.

By Mr. Reycraft:

Q. How many in Montgomery?

A. One.

Q. Do you know how many new banks have been started in [fol. 1440] the entire four-county area in the past 20 years?

A. In the past 20 years?

Q. Yes.

A. I can't answer in the last 20 years, but up until recently I think there has only been one.

Q. There is only one that you can think of?

A. That is right.

Q. Did you also give consideration to the price which would have to be paid in order to make the acquisition being discussed?

A. Yes, sir.

Q. It is an important factor, is it not?

A. I think you flatter me. This was only a means of getting something down. Yes, sir.

Q. Did you conclude that a premium would have to be paid in many of these cases?

A. Yes, sir.

Q. In which type of acquisition did you conclude a premium would have to be paid?

A. Those banks of, let's say, an equal size in the center city, the possibility was that you would not pay a premium. Other banks, small banks, suburban banks, unit banks, you would probably have to pay a premium.

Q. Why would you have to pay a premium for the smaller banks?

[fol. 1441] A. Because they wanted to make some money out of it.

Q. Would it be fair to say that your bank might not be the only opportunity they would have to merge?

A. Oh, yes.

Q. That would be fair to say.

A. Oh, yes.

Q. So that the stockholders were interested in getting the best advantage out of it they could?

A. Yes, indeed.

Q. Were the premiums in some cases substantial?

A. Yes.

Q. Do you have any knowledge as to the percentage over book value that would be involved in acquiring some of the banks you discussed?

A. Yes, they would vary from—they would run up to 12 per cent, 13 per cent, though there were just a few, I think of that category.

Q. Is this over book value?

A. That's right. Now, wait a minute. That's on deposits; that's on deposits.

Q. So you would consider or study paying a premium in the area of 12 per cent more than the existing deposits of the bank?

[fol. 1442] A. There would be a few in that category.

Q. And with reference to the book value of the bank, do you have any knowledge as to the percentage of the premium which you would consider over book?

A. I don't recall; I don't recall.

Q. This would be substantially more than the premium on deposits, would it not?

A. Oh, yes.

Q. It figures out that way?

A. Yes.

Q. Have you heard anywhere that the premium would be in the neighborhood of a hundred per cent over book?

A. I don't recall, but it might be. I really don't recall.

Q. Now, can you tell me why there was a premium necessary to be paid to these banks?

A. You wouldn't be able to buy them if you didn't.

Q. It was a question of the market for the stock, I suppose?

A. That's right. That's one of the reasons.

Q. Was there competition among the Philadelphia banks to acquire some of these outlying banks?

A. Yes.

Q. Would you say this was true with reference to most [fol. 1443] of the ones you listed?

A. I would think so, yes.

Q. Do you know of any of the banks that you have listed as to which there was not competition among the Philadelphia banks for acquisition?

A. The list of these?

Q. The list that you have included on Page 12 of your memorandum.

A. Well, I think some of these banks were not for sale, and therefore there wasn't any competition.

Q. But as to most of them?

A. I would say yes.

Q. You would say there was competition?

A. Yes.

Q. Now, you also concluded that with reference to the mergers you considered, with the downtown banks, no premium would be involved; is that correct?

A. In most cases, yes. Not in all cases, however.

Q. Why is that, sir?

A. Primarily because the amount of money involved, as far as the premium is concerned; because of the size of the bank, would just be out of the question. You couldn't pay it, because the bank would be too big, and, secondly, because in banks of that size they are both contributing an equal [fol. 1444] amount of good, and it was more of a merger for the benefit of the community, and so forth, that counted. All mergers, of course, are for that.

Q. Pardon me?

A. I would say that all mergers had to do with the benefit of the community. It is not just limited to the large banks, but I think primarily because the banks were so big that you

can't pay a premium of that kind, and, secondly, because when two large banks merge, they are contributing an equal amount of good, so that there isn't any necessity, there isn't any premium paid. You couldn't afford to pay a premium for a big bank.

Q. To your knowledge, Mr. Beadle, were negotiations conducted or indications of interest exchanged among any of the other Philadelphia center banks?

A. Information exchanged?

Q. Yes.

A. Not to the best of my knowledge.

Q. To your knowledge, was there any discussion with the First Pennsylvania Company concerning the possibility of merger, as you indicated on Page 13?

A. Pennsylvania Company, no. Philadelphia National, we had some discussions.

Q. To your knowledge, was there any indication of inter-
[fol. 1445] est on the part of your bank and the First Pennsylvania?

A. No.

Q. To your knowledge, was there any such indication of interest with respect to any other center city banks?

A. Yes, indeed.

Q. Which one?

A. Philadelphia National.

Q. Any other?

A. Central Penn.

Q. When did this happen?

A. Well, with Philadelphia National Bank I would think about four or five years ago and with Central Penn about three or four years ago, five years, something of that kind.

Q. Any others?

A. Not to the best of my knowledge.

[fol. 1446] Q. Now with reference to the indication of interest or discussions with the Philadelphia National Bank four or five years ago, do you have any knowledge as to why the discussions did not result in an agreement to merge?

A. I think I did—I really don't.

The Court: Just a minute before you answer that.

Where are we headed? Where are we leading?

Mr. Reycraft: Your Honor, I think—

The Court: You are asking for some thinking four or five years ago that I just can't possibly tie into the present picture. Nothing happened.

Mr. Reycraft: Your Honor, at least with reference to the discussions with Philadelphia National Bank, I think it is pertinent to this case to determine the origin of the negotiations which led up to the present agreement, and I think it is also relevant to the question of tendency to monopoly resulting from a proposed acquisition what other mergers have been discussed over a period of years.

Mr. Littleton: If Your Honor please, this is all set forth in the application of the two banks to the Comptroller of the Currency. I don't see why this witness should be interrogated about it.

The Court: I still don't see the relevancy, but go on. Let's [fol. 1447] get down to this case.

I don't think that it has any part in it. If you feel that it does, I will permit you to go on, but I don't want too much time spent on matters which I don't consider part of the case; but you make your record your way.

By Mr. Reycraft:

Q. Now with reference to your discussions or your communications of interest in exchange with the Central-Penn Bank, do you have any knowledge as to why this acquisition was not made?

A. As far as I know, they just didn't want to merge.

Q. Mr. Beadle, referring to Exhibit B to your memorandum, will you explain what you were trying to accomplish with this exhibit?

A. It was simply some means of bringing to management's attention what a similar application of cost to every bank. That was the purpose of it, and I had no way of knowing at the time, I didn't make any close examination of these banks from the standpoint of book value and earnings and so forth, and I simply took a method by which a cost factor could be applied to every bank so that somebody could get some idea of what it amounted to.

Q. Now, Mr. Beadle, with reference to the basis for this [fol. 1448] memorandum, that is the economic study concerning the establishments in the four-county area, you are

familiar with the banking needs of businesses in this area, are you not?

A. Yes.

Q. Is it your opinion that all of the plants, stores, and establishments in this area require commercial banking facilities?

A. Oh, yes, yes.

Q. You wouldn't have any doubt about that, would you?

A. No.

Q. Now, Mr. Beadle, on the basis of your study of the establishment of new bank offices in the four-county area, is it your observation that Philadelphia banks compete for desirable branch sites?

A. Compete?

Q. Yes, sir.

A. Well, if you mean—I will answer it this way:

Every bank in Philadelphia, I am sure, analyzes their market. I think they analyze their market; so to the extent that they do that, if that's competition, they compete.

They can't compete because there's only in most cases one bank that can get authority or get approval for a branch, and that's up to the State. That isn't up to the bank. A bank just can't go into a neighborhood and put a branch. [fol. 1449] They have got to get approval, so we don't compete because only one can get it.

Q. Well, do you say——

A. When it comes to examination and study of it, yes, they are all looking for sites.

Q. They are all looking for good new sites?

A. Oh, yes.

Q. Has it come to your attention from time to time that other banks are interested in sites you are interested in?

A. Yes.

Q. And you would try to make your application earlier, perhaps, or make a better showing for your bank, would you not?

A. No.

Q. You wouldn't?

A. We haven't so far.

Q. Do you mean that if you found out another bank was interested in a site that you would not then apply?

A. I wouldn't care about another bank. I would care only about what I thought was a good site.

If another bank happened to think so, I probably would have the application in or else I wouldn't think it was a good —if I thought it was a good site, I ought to have an application in or at least try to convince somebody we ought to have [fol. 1450] an application in.

But because somebody comes and says, "Well, I am going to put a branch there," it doesn't mean that I am going to put one there, or we even want to.

Q. Now, is it your observation that banks in the area try to maintain their competitive position by properly establishing branches?

A. I think in many cases that is true, though some banks have—I guess most every bank has branches now.

Q. Is it important, in your opinion, to a downtown Philadelphia bank to have adequate branch coverage throughout the area?

A. Yes.

Q. And it is equally important to all of them, would you say?

A. I think so.

Q. Do you think, in order to maintain their competitive position, that they must keep a strategic branch system?

A. That's our position—my position.

Q. And you don't have any doubt about that, do you?

A. Well, some people don't establish branches, so I don't know what their position is.

Q. But as far as your bank is concerned——

A. That's right.

[fol. 1451] Mr. Reycraft: Your Honor, I have a series of documents to mark. I wonder if it would be more convenient for the Court if we did it during a short recess.

The Court: Yes. I think that's probably so.

Do you want them 72-A to Q, or something like that?

Mr. Reycraft: Sir?

The Court: 72-A to Q?

Mr. Reycraft: Yes, sir. That's approximately correct.

The Court: All right.

Are you going to go into the examination of those now?

Mr. Reycraft: Yes, sir.

The Court: All right. Let's take a fifteen-minute recess. It may take a little time to have them marked.

(A recess was had, during which the following exhibits were marked for identification:)

(Three-page document entitled "Application to Establish a Branch Under the Provisions of the Banking Code of the Commonwealth of Pennsylvania, as Amended, Dated September 9, 1957, for Branch at Butler Avenue and Spring Garden Street, Ambler, Pennsylvania," was marked Exhibit G-72 for identification.)

[fol. 1452] (Ten-page document of information furnished by Girard Trust Corn Exchange Bank in connection with branch at Butler Avenue and Spring Garden Street, Ambler, Pennsylvania, Dated September 9, 1957, was marked Exhibit G-72-A for identification.)

(Three-page document entifled "Application to Establish a Branch Under the Provisions of the Banking Code of the Commonwealth of Pennsylvania, as Amended, Dated September 9, 1957, for Branch at Bethlehem Pike and Wissahickon Avenue, Flourtown, Pennsylvania," was marked Exhibit G-72-B for identification.)

(Ten-page document of information dated September 9, 1957, from Girard Trust Corn Exchange Bank, covering branch at Bethlehem Pike and Wissahickon Avenue, Flourtown, Pennsylvania, was marked Exhibit G-72-C for identification.)

(Three-page document entitled "Application to Establish a Branch Under the Provisions of the Banking Code of the Commonwealth of Pennsylvania, as Amended, Dated September 16, 1957, Covering Branch at Fort Washington Industrial Park," was marked Exhibit G-72-D for identification.)

(Ten-page document of information furnished by Girard [fol. 1453] Trust Corn Exchange Bank, dated September 16, 1957, concerning branch at Fort Washington Industrial Park, was marked Exhibit G-72-E for identification.)

(Three-page document entitled "Application to Establish a Branch Under the Provisions of the Banking Code of the

Commonwealth of Pennsylvania, as Amended, Dated July 22, 1959, Covering Branch at Northeast Corner of Comly Road and Roosevelt Boulevard, Philadelphia," was marked Exhibit G-73 for identification.)

(Nine-page document of information dated July 22, 1959, covering branch of Girard Trust Corn Exchange Bank at Northeast corner of Comly Road and Roosevelt Boulevard, Philadelphia, was marked Exhibit G-73-A for identification.)

(Ten-page document entitled "Application to Establish a Branch Under the Provisions of the Banking Code of the Commonwealth of Pennsylvania, as Amended, Dated February 29, 1956, Covering Branch at 2944-50 North 22nd Street, Philadelphia," was marked Exhibit G-74 for identification.)

(Ten-page document entitled "Application to Establish a Branch Under the Provisions of the Banking Code of the Commonwealth of Pennsylvania, as Amended, Dated March 5, 1956, Covering Branch at 427-31 North 63rd Street, Philadelphia," was marked Exhibit G-75 for identification.)

[fol. 1454] (Three-page document entitled "Application to Establish a Branch Under the Provisions of the Banking Code of the Commonwealth of Pennsylvania, as Amended," dated March 3, 1958, covering branch at 6908-10 Market Street, Upper Darby, Pennsylvania, was marked Exhibit G-76 for identification.)

(Nine-page document of information dated March 3, 1958, from Girard Trust Corn Exchange Bank, covering branch at 6908-10 Market Street, Upper Darby, Pennsylvania, was marked Exhibit G-76-A for identification.)

(Three-page document entitled "Application to Establish a Branch Under the Provisions of the Banking Code of the Commonwealth of Pennsylvania, as Amended," dated March 3, 1958, covering branch at 4221 Ferne Boulevard, Drexel Hill, Pennsylvania, was marked Exhibit G-76-B for identification.)

(Eight-page document of information dated March 3, 1958, from Girard Trust Corn Exchange Bank, covering branch at 6908-10 Market Street, Upper Darby, Pennsylvania, was marked Exhibit G-76-C for identification.)

(Three-page document entitled "Application to Establish a Branch Under the Provisions of the Banking Code of the Commonwealth of Pennsylvania, as Amended," dated March 3, 1958, covering branch at 1625 East Darby Road, [fol. 1455] Havertown, Pennsylvania, was marked Exhibit G-76-D for identification.)

(Eight-page document of information dated March 3, 1958, furnished by Girard Trust Corn Exchange Bank, concerning branch office at 1625 East Darby Road, Havertown, Pennsylvania, was marked Exhibit G-76-E for identification.)

(Three-page document entitled "Application to Establish a Branch Under the Provisions of the Banking Code of the Commonwealth of Pennsylvania, as Amended," dated March 3, 1958, covering branch at PTC Terminal Building, Upper Darby, Pennsylvania, was marked Exhibit G-76-F for identification.)

(Eight-page document of information dated March 3, 1958, furnished by Girard Trust Corn Exchange Bank concerning branch at PTC Terminal Building, Upper Darby, Pennsylvania, was marked Exhibit G-76-G for identification.)

(Three-page document entitled "Application to Establish a Branch Under the Provisions of the Banking Code of the Commonwealth of Pennsylvania, as Amended," dated March 3, 1958, covering branch at Glendale Road and Ludlow Street, Upper Darby, Pennsylvania, was marked Exhibit G-76-H for identification.)

(Eight-page document of information, dated March 3, 1958, furnished by Girard Trust Corn Exchange Bank, [fol. 1456] covering branch at Glendale Road and Ludlow Street, Upper Darby, Pennsylvania, was marked Exhibit G-76-I for identification.)

(Three-page document entitled "Application to Establish a Branch Under the Provisions of the Banking Code of the Commonwealth of Pennsylvania, as Amended," dated March 3, 1958, concerning branch at Manoa Shopping Center, Havertown, Pennsylvania, was marked Exhibit G-76-J for identification.)

(Eight-page document of information, dated March 3, 1958, furnished by Girard Trust Corn Exchange Bank, covering branch at Manoa Shopping Center, Havertown, Pennsylvania, was marked Exhibit G-76-K for identification.)

(Three-page document entitled "Application to Establish a Branch Under the Provisions of the Banking Code of the Commonwealth of Pennsylvania, as Amended," undated, covering branch at 1021 Pontiac Road, Drexel Hill, Pennsylvania, was marked Exhibit G-76-L for identification.)

(Eight-page document of information dated March 3, 1958, furnished by Girard Trust Corn Exchange Bank concerning branch at 1021 Pontiac Road, Drexel Hill, Pennsylvania, was marked Exhibit G-76-M for identification.)

(Three-page document entitled "Application to Establish a Branch Under the Provisions of the Banking Code of [fol. 1457] the Commonwealth of Pennsylvania, as Amended," dated March 3, 1958, covering branch at 3533 West Chester Pike, Newtown Square, Pennsylvania, was marked Exhibit G-76-N for identification.)

(Eight-page document of information, dated March 3, 1958, furnished by Girard Trust Corn Exchange Bank, covering branch at 3533 West Chester Pike, Newtown Square, Pennsylvania, was marked Exhibit G-76-O for identification.)

(Three-page document entitled "Application to Establish a Branch Under the Provisions of the Banking Code of the Commonwealth of Pennsylvania, as Amended," dated March 3, 1958, covering branch at Yeadon, Pennsylvania, was marked Exhibit G-76-P for identification.)

(Eight-page document of information dated March 3, 1958, furnished by Girard Trust Corn Exchange Bank covering branch at Yeadon, Pennsylvania, was marked Exhibit G-76-Q for identification.)

(Three-page document entitled "Application to Establish a Branch Under the Provisions of the Banking Code of the Commonwealth of Pennsylvania, as Amended," dated March 3, 1958, covering branch at Lawrence Park Shopping

Center, Broomall, Pennsylvania, was marked Exhibit G-76-R for identification.)

(Eight-page document of information dated March 3, [fol. 1458] 1958, furnished by Girard Trust Corn Exchange Bank, covering branch at Lawrence Park Shopping Center, Broomall, Pennsylvania, was marked Exhibit G-76-S for identification.)

(Three-page document entitled "Application to Establish a Branch Under the Provisions of the Banking Code of the Commonwealth of Pennsylvania, as Amended," dated March 3, 1958, covering branch at West Chester Pike and Summit Avenue, Broomall, Pennsylvania, was marked Exhibit G-76-T for identification.)

(Eight-page document of information dated March 3, 1958, furnished by Girard Trust Corn Exchange Bank, concerning branch at West Chester Pike and Summit Avenue, Broomall, Pennsylvania, was marked Exhibit G-76-U for identification.)

(Document entitled "Application to Establish a Branch Under the Provisions of the Banking Code of the Commonwealth of Pennsylvania, as Amended," dated March 3, 1958, covering branch at Penn Fruit Building, Upper Darby Township, Pennsylvania, was marked Exhibit G-76-V for identification.)

(Eight-page document of information dated March 3, 1958, furnished by Girard Trust Corn Exchange Bank, concerning branch at Penn Fruit Building, Upper Darby Township, Pennsylvania, was marked Exhibit G-76-W for identification.)

[fol. 1459] By Mr. Reycraft:

Q. Mr. Beadle, will you refer to Government's Exhibit 72 and tell me what that is?

A. It says an application to establish a branch under the provisions of the Banking Code by Girard Trust Corn Exchange Bank at Broad and Chestnut Streets.

Q. And what is the origin of this office, sir?

A. (No response.)

Q. Is this office involved in the acquisition of the Ambler National Bank?

A. This application covers the main office of the Ambler National Bank, which had proposed to merge with the Girard Trust Company, yes.

Q. All right, sir.

Now referring to Government's Exhibit 72-A, which is the next one in line, what is that?

A. This is the information to be furnished to the Banking Department by the Girard Trust for the establishment of branch of the Ambler National Bank at Butler Avenue and Spring Garden Street, Ambler, Pennsylvania.

Q. Can you tell me, Mr. Beadle, by referring to this exhibit, what the geographic area served by this branch is?

A. Yes, you can.

Q. What is it, sir?

[fol. 1460] A. The Borough of Ambler.

Q. Is this in accordance with your knowledge of the area served by this branch?

A. Well, it covers the Borough of Ambler.

Mr. Price: I couldn't hear a word of what you said.

The Witness: What was that?

Mr. Price: I couldn't hear a word of what you said. What was that?

The Witness: I didn't say much, sir.

Mr. Price: But you were mumbling something and I couldn't hear any of it.

The Witness: It's the Borough of Ambler. It covers the Borough of Ambler and that is my understanding of what the branch covers.

By Mr. Reycraft:

Q. An area which this branch serves?

A. Yes.

Q. All right, sir.

Now, what type of business is located in that area, what type of banking business?

A. Deposits, loans, safe-deposit facilities, and general banking business.

Q. Is there a commercial business located in this area?

[fol. 1461] A. It does a residential-banking business, that is, a personal-banking business; it serves commercial customers and serves industrial customers.

Q. Are some of the industrial customers the American Chemical Paint, C. H. Wheeler, and Keasbey-Mattison?

A. Yes.

Q. What other Philadelphia bank has offices located in the area?

A. The Provident Tradesmen's is in Ambler.

Q. And you are in competition with Provident Tradesmen's in that area; is that correct?

A. Yes.

Q. Does that office compete with any other office of any Philadelphia bank?

A. Not in that immediate area.

Q. Where else does it compete?

A. There are no branches—other than the Provident Tradesmen's, there are no offices of Philadelphia banks in that vicinity.

Mr. Littleton: I assume when you say that you mean Philadelphia commercial banks?

The Witness: Philadelphia commercial banks.

By Mr. Reycraft:

Q. So, to your knowledge there is only one bank with [fol. 1462] which that branch office competes?

A. That is correct.

Q. Is that correct?

Now will you refer to Government's Exhibit 72-B, an application for authority to operate a branch bank at Bethlehem Pike and Wissahickon Avenue in Flourtown?

A. Yes, yes.

Q. Can you tell me what geographic area is served by that office?

A. An area generally known as Flourtown—Flourtown.

Q. Are there branches of any other Philadelphia bank in that area?

Mr. Littleton: Commercial banks, do you mean, Mr. Reycraft?

Mr. Reycraft: Yes, sir.

The Witness: No.

By Mr. Reycraft:

Q. Now will you refer to Government's Exhibit 72-C, which sets forth in more detail the information submitted

to the Commonwealth of Pennsylvania in connection with this application?

The Court: If you go back to 72-A and look at the second map there, that shows the area served.

Mr. Reycraft: Yes, sir. There is a map attached also [fol. 1463] to 72-C.

The Witness: May I interject this?

Mr. Reycraft: Certainly.

The Witness: I didn't prepare this information and I am not as familiar with it as the person who did prepare it.

By Mr. Reycraft:

Q. You are familiar, however, with the location of the branches of your bank and the areas they serve?

A. Certainly.

Q. I am not asking you whether you prepared the application or not, but I am asking you whether you are familiar with the areas served, and you may refresh your recollection or your knowledge by referring to the application.

[fol. 1464] The Court: You don't need to do that for the information of the Court. I know exactly where Flourtown is and all about it.

Mr. Reycraft: My question to Mr. Beadle, sir, is what the extent of the service area of the particular branch is. I want to know whether it is limited to Flourtown or how far beyond it extends.

The Court: It is on the outskirts of Chestnut Hill, and there are a lot of banks in Chestnut Hill.

By Mr. Reycraft:

Q. Is that according to your knowledge, Mr. Beadle?

A. That is correct.

I would like to have this explained to me, if you will. I don't know what this means. I don't know what this DA means in this circle, and so forth.

Q. Well, there is a legend on the map which shows what banks are indicated by the letters.

A. O.K.

Q. Can you tell me, Mr. Beadle, what the area is which is served by this branch?

A. Flourtown?

Q. Does the service area extend beyond Flourtown?

A. Yes, I think it covers Flourtown possibly to Erden-
[fol. 1465] heim, which is going towards Chestnut Hill, and it probably covers Erdenheim and Flourtown.

Q. And that would be the extent of its coverage?

A. Yes.

Mr. Price: May I ask what you mean by service area? Is this a technical term or is this a general term?

Mr. Reycraft: It is a term which is intended to elicit information concerning the market area which this bank serves.

Mr. Price: I would like to have it defined more accurately than that, if I may.

By Mr. Reycraft:

Q. Well, you used the term. Can you tell me, Mr. Beadle, what the area is from which this branch draws its banking business?

Mr. Price: All of it, some of it, most of it? Which?

By Mr. Reycraft:

Q. Can you answer my question, Mr. Beadle?

A. I think I did answer it by saying I think it is Flourtown and Erdenheim. Now, I am not certain of the area. I am not sure where Erdenheim begins and ends, but I would say it is probably an area of maybe a mile to a mile
[fol. 1466] and a half in circumference, something of that kind.

By the Court:

Q. Do you go as far as Fort Washington?

A. No, I don't think so, sir.

Q. Do you come back into Springfield and into the City Line?

A. Yes, I think we do come into Springfield.

By Mr. Reycraft:

Q. And that would be the limits of the area, so far as you know?

A. Yes.

Q. What type of banking business originates in this area, sir?

A. Primarily from persons, individuals, and from commercial establishments.

Q. Is there industrial banking business in this area?

A. Very little. There is some.

Q. But there is commercial and individual business?

A. Commercial, yes, commercial and individual.

Q. Will you refer to Government's Exhibit 72-D and E, which relate to the branch at Fort Washington Industrial Park.

A. Yes.

Q. Can you tell me by reference to these exhibits the area [fol. 1467] from which this bank draws its banking business?

A. This particular office draws most of its business from an industrial park in which it is located and draws some business from an area surrounding Fort Washington of a mile to a mile and a half surrounding the area.

Q. And would that be roughly the limits of the area from which this branch draws its banking business?

A. Yes.

Q. What type of banking business originates in this area?

A. Primarily industrial and individual, that is, individual persons.

Q. Are there any nationally known concerns in this area?

A. Yes, there are.

Q. What are they?

A. Well, there is Columbia Steel Equipment, which is Standard Pressed Steel, Chemical Concentrates, Hewitt-Robins, Minneapolis-Honeywell, Montgomery Publishing, National Aeronauts Corporation, and there are some additional since then.

Q. All of these businesses are served by the branch we are discussing?

A. Yes.

[fol. 1468] Q. And that is the Fort Washington Industrial Park branch?

A. Yes.

Q. Now, this application indicates, does it not, the deposits and loans originating in this branch?

A. This application?

Q. Yes, sir, Page 4.

A. That is an estimate of deposits and loans.

Q. It is an estimate?

A. Yes.

Q. I understand you don't have the precise figures. I don't mean to question you on that. What is the estimate as shown in the application?

A. The estimate of new business, is that what you want?

Q. Yes.

A. The estimate of new business?

Q. Existing and new business.

A. $1 million demand deposits of existing business. That is business that was done by the bank prior to the office being established. $1 million of demand deposits, $200,000 of time deposits, $200,000 of loans.

Estimate of new business that the branch would attract, $2,500,000 of demand deposits, $1,500,000 of time deposits, $1,250,000 of loans.

[fol. 1469] Q. And this means business originating in the area you have described; is that correct?

A. Yes.

Q. With reference to Government's Exhibit No. 73 and 73-A, concerning Broad and Chestnut Streets, can you tell me the area from which this office draws its banking business?

A. 73-A?

Q. 73 and 73-A. That is Broad and Chestnut Streets.

A. I am sorry. That is Comly and Roosevelt Boulevard.

Q. You are correct. I am looking at the wrong line. Comly and Roosevelt. Can you tell me the area from which the branch at Comly and Roosevelt Boulevard draws its banking business?

A. This is a new office that has just been opened, and the estimate, I would say, is a million to a million and a half or a million and a quarter surrounding the particular location.

Q. And what type of banking business originates in the area you described?

A. Primarily industrial. Some individual business. Very little commercial at the moment.

Q. Do you know the names of any businesses located in the area you have described from which you expected, at

[fol. 1470] the time of application, to obtain banking business?

A. There is International Paper, Interstate Iron, Kelly Springfield Tire, Klightning Manufacturing, National Biscuit Company, National Electrical Products, Yale and Towne, Progress Manufacturing Company, D. P. Brown, Byberry State Hospital.

Q. The estimate submitted with this application indicated, did it not, $3 million of demand deposits and $500,000 of commercial loans expected? That is at Page 4.

A. That is the estimate of new business, yes, sir.

Q. So that deposits in that area were estimated to exceed loans very substantially; is that correct?

A. Yes.

Q. And by reference to Page 5 can you tell me the loan authority of the branch manager?

A. $5,000 commercial, $10,000 collateral.

Q. And if someone in that area wanted to make a loan in excess of that amount, where would he go?

A. He could go to the branch manager.

Q. Pardon me?

A. He could go to the branch manager.

Q. What would the branch manager then do?

A. He would get someone who had the loan authority required, or join with another branch manager if the [fol. 1471] authority of the two of them together would equal the loan.

Q. By reference to Government's Exhibit No. 74, and the branch involved here is 2944-50 North 22nd Street, can you tell me the geographic area from which it was expected to obtain banking business at this branch?

A. That would be an area of about a half to three-quarters of a mile, half to three-quarter-mile radius of the location.

Q. Why would that be smaller than some of the others you described?

A. Because it wouldn't exactly be that, but, theoretically —not theoretically—east there are other branches, other offices.

Q. Other banks?

A. Other banks of this office. South there is not, though the neighborhood isn't particularly good, and you don't get much business from there, and west you go out to the river,

and north you have a block beyond Hunting Park Avenue, so it is the type of area.

Q. So that in the area where you would meet other banks, in other words, your service area would be limited by competition from those banks?

A. Well, that's always the case, but it isn't necessarily [fol. 1472] the case here. Only in one direction.

Q. But in the direction in which there are other banks?

A. Yes.

Q. In your opinion, your market area would be limited by those other banks?

A. Yes.

By the Court:

Q. There were no other banks in that area, were there? Wasn't Broad and Erie the nearest banking center?

A. The nearest one is at 12th and Lehigh, Pennsylvania Company.

Q. 12th and Lehigh?

A. Yes.

Q. And this is what?

A. 22nd and Indiana. That is the nearest one.

Q. That is well over a mile, isn't it?

A. Yes, I guess it is.

Q. About a mile and a half.

A. It is, but that is the nearest one.

By Mr. Reycraft:

Q. Were you splitting the difference between the two banks?

A. Approximately, yes, because they would go as much our way as we would go their way.

[fol. 1473] Q. So you reach the limit on either end by the service area of the other?

A. That's right.

The Court: That is his opinion of it.

The Witness: That's right.

By Mr. Reycraft:

Q. Now, what type of banking business is available in this area?

A. This is individual business, commercial business and industrial.

Q. And the demand deposits as indicated at Page 4 of the application, the estimated new business is $4 million and loans $500,000; is that correct?

A. Yes.

Q. So that it would be a substantial excess of demand deposits over loans?

A. Yes.

Q. With reference to the preceding paragraph, No. 2, it indicates $8 million of demand deposits and a million and a half of loans; is that correct?

A. Yes.

Q. And this is business which was being done at that time by your bank in the area?

A. Yes.

[fol. 1474] Q. And was this prior to the establishment of a branch?

A. You mean the $8 million?

Q. Yes.

A. Yes.

Q. So this is banking business which your bank was getting out of the area prior to having a branch there; is that correct?

A. That's correct.

Q. And you thought that you could do additional business, as indicated in Paragraph 3, by having a branch conveniently located?

A. Yes indeed, from a convenient standpoint.

Q. And among the companies which you hoped to serve in that area were the Budd Company, Tasty Kake Company, and Link-Belt Company?

A. Yes.

Q. What is the loan limit of the manager at the 2944-50 office of North 22nd Street?

A. I don't recall. Actually, we have changed managers. What page was that?

Q. At Page 5 there is some information on the loan limits. I am not sure whether it is changed or not.

A. Well, that is incorrect. Actually that figure should be [fol. 1475] $5000. It says $500. It should be $5000 and $10,000. However, we had changed managers there, and the

man that is there now is a loan man, and I am not certain what his authority is.

Q. You think his limit may be higher?

A. I think it may be higher; I am not sure.

Q. Now, with reference to Government's Exhibit No. 75, relating to the establishment of a branch at 427-31 North 63rd Street, can you tell me the geographic area from which that branch expected to obtain banking business?

A. Well, this, I would say, is an unusual office in that we have an office not far from it on one side, so that actually we get business more from three sides instead of four sides, as it were, and I would say that the area here is probably a half-mile east, a half-mile west, and less than that south, because that's where our branch is.

Q. Now, the 1955 population estimate is given on Page 2 within a one-mile radius area as 87,000. Is that substantially identical with the area you described?

A. That's a very heavily populated section, very high population density there.

Q. And this office serves all that area?

A. Yes, I would say so.

[fol. 1476] Q. And what type of banking business originates in the area you described?

A. Individual business, commercial business, very little industrial business.

Q. On Page 4 of the application it indicates that the existing business in the area is $2,400,000 demand deposits, $3,200,000 time deposits, and $500,000 of loans.

A. Yes.

Q. The excess of deposits, Mr. Beadle, would they be transferred into the main office?

A. Well, there isn't any such thing as transfer. We have X dollars of deposits to use.

Q. It is all in one central account; is that correct?

A. Oh, yes.

Q. And what you do with reference to the branches to allocate to them as a bookkeeping matter the deposits originating in the branch; is that right?

A. What happens is that the deposits originate in this office and are earmarked on the bookkeeping record, but then in order to determine deposits for the branch, you go over and pick out those deposits which have originated there

or which are serviced there, I should say, rather than originate.

Q. They are physically delivered where? To the main [fol. 1477] office?

A. By bookkeeping entry, yes.

Q. What happens to the money which goes into the branch? Is it physically delivered to a central location?

Mr. Price: Are you talking about cash now?

The Witness: Oh, the cash? No, that is maintained in the office unless it gets over a certain amount, and then the excess either goes to the main office or the Federal Reserve System if it is excess.

By Mr. Reycraft:

Q. Periodically, then, as you get over a certain amount in the branch, it will be a transfer to the main office or to the Federal Reserve System?

A. Federal Reserve Bank.

By the Court:

Q. And you transfer it back when you get an undersupply, when you cash too many checks?

A. That's right, sir.

By Mr. Reycraft:

Q. Now, the application indicates also that the new branch was expected to draw $3 million of additional demand deposits, $1 million of additional time deposits, and $300,000 of loans. This would be in addition to the existing business which the bank had in that area; is that correct?

[fol. 1478] A. Yes.

Q. So that at the time the application was made, there was business which the bank had in the area which it was serving from some other office; is that right?

A. Yes. Actually, the reason for this office was just that. We had an office at 60th and Ludlow, which is a fairly large office as far as activity and deposits are concerned. It is in a completely built-up area, and we didn't have sufficient space to provide the service to the customer. It was crowded. It was very difficult to get additional facilities in order to enlarge them, so we put this branch here. We determined that

we had a substantial amount of our business north of Market Street—this 60th and Ludlow happens to be just south of Market Street—and we determined that in order to provide service, and since there was this business in this area, that we would build a bank there in order to take the load away from the existing one, so that's how this office got there.

Q. So you put the branch where the business was?

A. Yes.

Q. The loan limit here is also $5000 commercial and $10,000 collateral.

A. Yes, with this difference, that the manager of this [fol. 1479] office has that authority. This office is somewhat of a satellite office to the 60th Street branch. It is very close to it, and the officer in charge of that branch also has authority which combines with this office. He has higher authority. His loan limits are, going from memory now, but I would say they are $25,000 to $50,000, something of that kind.

Q. Is that $25,000 on unsecured and $150,000 secured?

A. Yes. I don't know whether it is 150 or 200. I forget what the actual figures are now.

[fol. 1480] Q. Now, Mr. Beadle, referring to Government's Exhibit No. 76, which is an application to establish a branch in Upper Darby Township, and the reason for filing the application is given as the application covers the main office of the Upper Darby National Bank, which has proposed to merge with the Girard Trust Corn Exchange Bank, subject to the approval of the federal and state authorities and the stockholders of both banks.

Now, Government's Exhibit No. 76-A describes the branch to be operated at 6908-10 Market Street in Upper Darby.

Can you tell me, sir, by reference to 76-A and your other knowledge, what the geographic area is from which this office draws its banking business?

A. This office covers a fairly wide territory, one reason being that we have—I may be getting ahead of myself. We have a drive-in office here and we have the PTC Terminal office. That is a transportation point, which is just across the street, and the drive-in is just in back of this office.

Both of these two latter offices were established as an adjunct to this main office of the Upper Darby National Bank.

Because of that drive-in and because of the office in the terminal we get business from a wide territory of Upper [fol. 1481] Darby primarily, or rather of Delaware County, because it is such a transportation point, both because of the subway and the drive-in, and we cover a wide territory. That's as far as Delaware County is concerned.

Q. Pardon me?

A. As far as Delaware County is concerned, it's a wide territory.

By the Court:

Q. How about the "Red Arrow" out of Norristown? Does that bring you business, too?

A. Yes, sir. It certainly does, sir.

That's all in the PTC Terminal Building at 69th Street, in which we have banking facilities.

By Mr. Reycraft:

Q. And a good deal of the business is generated in this area?

A. That's right: Delaware County.

Q. What type of business is available in that area?

A. Primarily industrial—primarily individuals and commercial. Some industrial, but the preponderance is individual and commercial, of course.

Q. Now, do you know what the lending limits are of the branch manager at this office?

The Court: Do you mean as of today?

[fol. 1482] Mr. Reycraft: Yes, sir.

The Witness: I really don't know, but I think it's $100,000 unsecured, and $200,000 secured.

It's very hard to recollect all of these individual limits.

By Mr. Reycraft:

Q. This would be one of your higher branches' loan limits?

A. One of the larger, and there's more than one office that has that.

Q. All right.

Now referring to Government's Exhibit No. 76-B, this is

another office of the Upper Darby National Bank, located at 4221 Ferne Boulevard, Drexel Hill.

Now, can you tell me the geographic area from which this office draws its banking business?

A. I would say that this is about a mile radius, three quarter of a mile radius, something of that kind in Drexel Hill, in that general area.

Q. What type of banking business originates in that area?

A. Primarily individual and commercial.

Q. Do you know what the loan limits of the branch manager are at this office at the present time?

A. No, sir, I don't, but it wouldn't be one of the larger limits.

[fol. 1483] Q. It would be in the lower range of the lending limits?

A. Yes, sir.

Q. Now referring to Government's Exhibit No. 76-D and 76-E, which relate to the branch at 1625 East Darby Road, Havertown, Haverford Township, Delaware County, Pennsylvania, this office was also acquired with the Upper Darby National Bank, was it not?

A. Yes.

Q. Can you tell me the geographic area from which this branch draws its banking business?

A. Three quarters to a mile radius.

Q. And the type of banking business available?

A. Individual and commercial.

Q. Pardon me?

A. Individual and commercial.

Q. Do you know the lending limits of the officer at this branch?

A. Not exactly, but it would be in the lower limits.

By Mr. Price:

Q. What was that? What did you say?

A. I said I don't know, but it would be in the lower-limit category.

By Mr. Reycraft:

Q. I believe at page 4 of the application it indicates that [fol. 1484] as of the time the application was made it would

be $10,000 secured, and $750 unsecured? That may have changed, I assume.

A. Oh, yes, it has.

Q. Referring to Government's Exhibit No. 76-F, an application for branch at PTC Terminal Building, Market at 69th Street, Upper Darby Township, Delaware County, Pennsylvania, this branch was also acquired with the Upper Darby National Bank, was it not?

A. Yes. It was.

Q. Can you tell me the geographic area from which this bank draws its banking business?

A. This is the office in the PTC Terminal Building which I mentioned before.

Q. You have previously referred to it?

A. Yes.

Q. This is one of your smaller offices, is it not, sir?

A. Yes, it is.

Q. And at the time of the application loans were not approved at that office; is that correct?

A. That's correct.

Q. Has that changed?

A. No.

Q. It still exists?

[fol. 1485] A. That is still the situation. That's a portion of the main office, really.

Q. It is really a satellite of the main office?

A. An additional service, yes.

Q. Now with reference to Government's Exhibit No. 76-H, referring to the branch at Glendale Road and Ludlow Streets, Upper Darby Township, Delaware County, Pennsylvania, what is the geographic area from which this bank draws its banking business?

A. What is the number of that exhibit?

Q. 76-H, Glendale Road and Ludlow Streets.

A. That is the drive-in office that I mentioned in connection with the main office of the Upper Darby.

Incidentally, when I have used the term "main office," I have used it inadvertently.

I meant it was the former main office of the Upper Darby National Bank.

Q. I think we understand that.

What type of banking business originates in the area served by this office?

A. The same as that which exists at the main office, and that would be individual, commercial—no industrial, I would say.

Q. Would the loan limit here be toward the lower range?

[fol. 1486] A. Yes, it would.

Q. Now with reference to Government's Exhibit No. 76-J concerning a branch at Manoa Shopping Center, West Chester Pike and Eagle Road, Havertown, can you tell me the geographic area from which this branch draws its banking business?

A. That would be three quarters of a mile radius.

Q. Pardon me?

A. Three quarters of a mile to a mile radius.

Q. And what type of banking business originates in this area?

A. Individual and commercial.

Q. Do you know the loan limit at this office at the present time?

A. No, but I would say it would be in the lower category.

Q. The application indicates up to $10,000 secured and $750 unsecured. I assume this has been changed since that time.

A. That has been changed, yes.

Q. Now with reference to Government's Exhibit No. 76-L concerning an application for a branch at 1021 Pontiac Road, Drexel Hill, Upper Darby Township, can you tell me the geographic area from which this bank draws its banking business?

A. The same as the others, three quarters of a mile to a mile radius.

[fol. 1487] Q. Can you tell me the type of banking business which originates in this area?

A. Individual and commercial.

Q. Are you familiar with the lending limit of the branch manager at that office?

A. No, but this again would be in the lower category.

Q. At the time of the application it would be $5,000 on secured, and $750 on unsecured, so it would be towards the lower range; is that right?

A. That's right.

Q. Now with reference to the Government's Exhibit No. 76-N concerning an application involving the Newtown Square office of the Upper Darby National Bank, can you tell me the geographic area from which the banking business done by this branch originates?

A. I would say about the same as the others, from three quarters of a mile to a mile radius.

Q. And the type of banking business in this area?

A. Individual and commercial.

Q. Would the lending limit here be toward the lower range?

A. Yes.

Q. Did you tell us, sir, earlier what the lower range is in general terms?

A. Yes, it's $5,000 unsecured and—$5,000 unsecured, and [fol. 1488] I think it's $10,000 secured, I believe.

I read it off but now I forget.

Q. I think that's what you said.

Does this apply to all types of loans that that branch does?

A. Not mortgage loans and not consumer-credit loans; but all commercial loans.

Q. Now with reference to Government's Exhibit No. 76-O concerning the branch at 3533 West Chester Pike, Newtown Square, Newtown Township, Delaware County, can you tell me the geographic area from which this branch office draws its banking business?

The Court: Is this a different one than the one we had before or is it the same one?

Mr. Reycraft: This is the same, Your Honor. I misspoke. 76-N and 76-O both relate to the same branch application.

By Mr. Reycraft:

Q. Now referring to Government's Exhibit No. 76-P, concerning the branch at 712½ Church Lane, Yeadon Borough, Delaware County, Pennsylvania,——

The Court: And Q?

Mr. Reycraft: Sir?

The Court: Q covers that, too.

[fol. 1489] Mr. Reycraft: P and Q; right.

By Mr. Reycraft:

Q. What is the geographic area from which this bank office draws its banking business?

A. This primarily covers the Borough of Yeadon; generally, I would say, covers the same three quarters to a mile radius, something like that. Primarily, the Borough of Yeadon.

Q. And the same type of commercial and industrial business originates in the area?

A. Yes.

Q. And would this be also the type of branch that would have the $5,000 to $10,000 loan limit?

A. Yes.

Q. Referring to Government's Exhibit No. 76-R and S, which relate to a branch at Lawrence Park Shopping Center, at Lawrence and Sproul Roads in Broomall, Marple Township, what is the geographic area from which this office draws its banking business?

A. About a mile radius of the location.

Q. And what type of banking business?

A. Individual and commercial.

Q. Do you know the loan limit at this office?

A. It would be in the lower range.

Q. The $5,000 to $10,000?

[fol. 1490] A. Yes.

Q. Now with reference to Government's Exhibits Nos. 76-T and 76-U, relating to a branch at West Chester Pike and Summit Avenue in Broomall, Marple Township, in Delaware County, can you tell me the geographic area from which this bank office draws its banking business?

A. About the same, about a mile radius; three quarters of a mile or a mile radius.

Q. And the type of banking business?

A. Individual and commercial.

Q. Would the loan limits here be toward the lower range?

A. Yes.

Q. $5,000 to $10,000?

A. Yes.

Q. And with reference to 76-V and W concerning a branch at Penn Fruit Building, Baltimore Pike and Oak Lane, Upper Darby Township, can you tell me the geographic area from which this bank draws its business?

A. About three quarters of a mile to a mile radius.

Q. And would that be the same type of commercial and industrial and personal business?

A. Yes. There might be a little industrial here, but very little.

Q. Primarily commercial and residential?

[fols. 1491-1498] A. And residential; that's right.

Q. And the loan limit would be toward the lower range?

A. Yes, it would.

The Court: That is the day's work, gentlemen.

(Adjourned at 4:00 o'clock P. M. until 10:00 o'clock A. M. on Tuesday, June 13, 1961.)

[fols. 1499-1500] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

SEVENTH DAY

Philadelphia, Pa., June 13, 1961

Before Hon. Thomas J. Clary, J.

* * * * * * *

[fol. 1501] ORVIL H. BEADLE, resumed.

Direct Examination (cont'd.)

Mr. Reycraft: Will you mark as Government's Exhibit No. 77 a three-page document dated September 9, 1957, which is an application to establish a branch at Haverford and Essex Avenues, Narberth, Pennsylvania.

(Three-page document dated September 9, 1957, application to establish a branch at Haverford and Essex Avenues, Narberth, Pennsylvania, was marked Exhibit G-77 for identification.)

And as Government's Exhibit No. 77-A a document dated September 9, 1957, application to merge the National Bank of Narberth and location of branch at Haverford and Essex Avenues, Narberth, Pennsylvania.

(Document dated September 9, 1957, application to merge the National Bank of Narberth and location of branch at Haverford and Essex Avenues, Narberth, Pennsylvania, was marked Exhibit G-77-A for identification.)

Q. Mr. Beadle, referring to Government's Exhibit No. 77-A, can you tell us the general geographic area from which this office was expected to draw its banking business?

[fol. 1502] A. It covers the Borough of Narberth, part of what is known as Penn Valley, and possibly covers a radius in three directions of possibly a mile and a half to two miles.

Q. On Page 2 of 77-A, near the bottom, the document indicates that the shopping center attracts customers from many surrounding communities. Is it your opinion that this would apply also to the branch?

A. Yes.

Q. What type of banking business originates in the area which you described?

A. Primarily individual accounts and commercial business. Some, very little, well, hardly any, industrial.

Q. To your knowledge, at the time this banking office was taken over by your bank, did your bank have existing business in the area? I might say on Page 6 of the application, toward the end of the paragraph, the application suggests that this is the case.

A. Yes.

Q. Is it your opinion that there was existing business which your bank had in the area?

A. Yes.

Mr. Reycraft: Will you mark as Government's Exhibit No. 77-B and 77-C these two documents. 77-B is a three-

[fol. 1503] page document referring to a branch at No. Bala Avenue, Bala-Cynwyd, Pennsylvania, and 77-C is an application relating to the merger or consolidation of the National Bank of Narberth, the office at No. 1 Bala Avenue, Bala-Cynwyd, Pennsylvania.

(Three-page document dated September 9, 1957, referring to a branch at No. 1 Bala Avenue, Bala-Cynwyd, Pennsylvania, was marked Exhibit G-77-B for identification.)

(Document dated September 9, 1957, application relating to the merger or consolidation of the National Bank of Narberth, Pennsylvania, office at No. 1 Bala Avenue, Bala-Cynwyd, Pennsylvania, was marked Exhibit G-77-C for identification.)

Q. Mr. Beadle, referring to Government's Exhibit No. 77-C, can you tell me the geographic area from which this bank office draws its banking business?

A. This draws from an area known as Bala-Cynwyd. It also draws from parts of Philadelphia situated on City Line. I would say it probably covers an area on three sides of a mile radius and on the other side a half-mile to three-quarter radius.

Q. What type of banking business originates in that area? [fol. 1504] A. Individual, commercial, large commercial, possibly some industrial, in a small way.

Q. Do you have any knowledge as to whether your bank had existing business in the area at the time this office was taken over?

A. Yes, we had. We did.

Q. You did have?

A. Yes.

Q. Of all types of commercial, individual, and industrial?

A. I don't know that, no, I don't know that.

Mr. Reycraft: Will you mark as Government's Exhibit No. 77-D a three-page document dated September 9, 1957, relating to an application to establish a branch at 18 East Wynnewood Road, Wynnewood, Pennsylvania.

(Three-page document dated September 9, 1957, application to establish branch at 18 East Wynnewood Road, Wynnewood, Pennsylvania, was marked Exhibit G-77-D for identification.)

And as Government Exhibit No. 77-E an application relating to the merger or consolidation of National Bank of Narberth and permission to operate the branch at 18 East Wynnewood Road, Wynnewood, Pennsylvania.

(Document dated September 9, 1957, application relating [fol. 1505] to the merger or consolidation of National Bank of Narberth and permission to operate branch at 18 East Wynnewood Road, Wynnewood, Pennsylvania, was marked Exhibit G-77-E for identification.)

Q. Mr. Beadle, referring to Government's Exhibit No. 77-E, can you tell me the general geographic area from which this bank office draws its banking business?

A. Portions of Marion, Ardmore, a section known as Penn Wynn, probably again a radius of three-quarters of a mile to a mile on three sides, with maybe half to three-quarters on the other.

Q. And what type of banking business originates in that area?

A. Individual and commercial.

Q. In this case did you also have banking business originating in that area at the time you took over this office?

A. Yes, we did.

Mr. Reycraft: Will you mark for identification as Government Exhibit No. 78 a document dated April 12, 1957, application for permission to establish a branch, to the Commonwealth of Pennsylvania, at Washington Lane and Stenton Avenue, 7167 Stenton Avenue.

(Document dated April 12, 1957, application for permis- [fol. 1506] sion to establish a branch at Washington Lane and Stenton Avenue, was marked Exhibit G-78 for identification.)

And will you mark as Government's Exhibit No. 78-A a two-page memorandum dated February 1, 1957, from Robert C. Allen to O. H. Beadle.

(Two-page memorandum dated February 1, 1957, from Robert C. Allen to O. H. Beadle, was marked Exhibit G-78-A for identification.)

Will you mark as Government's Exhibit No. 78-B a one-page memorandum dated March 29, 1957, from O. H. Beadle to Mr. Basil L. Harlow.

(One-page memorandum dated March 29, 1957, from O. H. Beadle to Mr. Basil L. Harlow, was marked Exhibit G-78-B for identification.)

And as Government's Exhibit No. 78-C a one-page document dated April 3, 1957, from O. H. Beadle to Mr. Geoffrey S. Smith.

(One-page document dated April 3, 1957, from O. H. Beadle to Mr. Geoffrey S. Smith, was marked Exhibit G-78-C for identification.).

Q. Mr. Beadle, referring to Government's Exhibit No. 78, can you tell me the geographic area from which this bank office draws its banking business?

[fol. 1507] A. Within a half-mile radius of Washington Lane and Stenton Avenue.

Q. Is there some reason why this radius is somewhat smaller than the others?

A. Primarily it is because it is in the City of Philadelphia, where there is a heavier concentration of population, and in this particular office there are other banking facilities about three-quarters of a mile to a mile away in some directions.

Q. What type of banking business originates in this area?

A. Primarily individual customers and commercial business.

Q. Mr. Beadle, will you refer to Page 4 of the application, and can you tell me the relation between the deposits which originated in this area and the loans?

A. Is that the estimate of new deposits and loans or the amount of business that we had at the time?

Q. Well, would you tell me first the existing business which your bank had at the time you applied for this new office and then the amount of business which you anticipated getting from the area.

A. The amount of business that was done at the office at the time of the application was approximately 2½ million [fol. 1508] dollars of demand deposits, a million dollars of time deposits, and $250,000 of loans. The estimate of new business, the office would attract, was $2,750,000 of demand deposits, $1,750,000 of time deposits, and $500,000 of loans.

Q. Is it unusual for there to be this large a disparity between the deposits and loans in an office of this type?

A. It isn't unusual in a branch of this type, no.

Q. Can you tell me why that is?

A. Because it is primarily residential and commercial, and the loans that would be generated here would be primarily small loans to small business, to consumer credit and, therefore, while there may be a lot of them in number, they don't amount up to much in volume.

Q. None of them are very large individual?

A. No, they are small loans.

Q. In general, would the branch manager be able to handle this type of loan which originates in the area within his loan limit?

A. Yes, sir.

Q. Has it been your general observation that something close to this ratio of deposits to loans is typical of branches in your system?

[fol. 1509] A. No. It is typical of this kind of branch, but it is——

Q. Can you describe this branch in general terms, put it in a general category?

A. Yes. This I would call a neighborhood office. By a neighborhood office I mean one which is situate in an area which is primarily residential. It is situate in a shopping center, or something of the kind, from which it draws individual business, commercial business, throughout the area it serves, so it is primarily a small business and residential neighborhood area.

Q. So that this ratio would be typical, then, of what you call a neighborhood branch?

A. In general.

Q. With reference to the excess in deposits over loans, what happens to that?

A. It is used by the bank.

Q. By the branch?

A. By the bank as a whole.

Q. It would be transferred to the main office, would it?

A. What actually happens in a branch of this kind, people come in and make deposits of checks and cash. The cash is kept in the office unless there is an excess, in which case it would be shipped to the Federal Reserve Bank, if there was [fol. 1510] an excess, or to some other office if they happened to have a shortage. The checks would go to our bookkeeping department, which is centralized. It would be posted to the records. Those deposits, as all other business of the

bank, are consolidated into a statement, so that each day we have so much deposits for the entire bank, and that is invested in loans and securities, and so forth. There is no physical transfer. I don't understand what you mean by transfer. There is no physical transfer.

Q. The checks are taken to the main office?

A. To a central office, that's right, central bookkeeping.

Q. And they are cleared centrally?

A. That's right, through the bank and through the clearing house.

Q. For example, if a check is drawn on a bank in New York, it would go through your main office, and what would happen to it then?

A. It would go to the Federal Reserve Bank for clearance, or we may have a correspondent bank in New York, and we may send it direct to the bank in New York for collection. [fol. 1511] Q. So, referring to page 7 of the application, one of the purposes of establishing this branch was not only to retain existing business, but to attract new business; is that correct?

A. That's right.

Q. Government's Exhibit No. 78-A is a memorandum from Mr. Robert C. Allen to you.

Can you tell me what the occasion was for this memorandum?

A. I will have to read this. I am not familiar with it.

This is a letter addressed to me by Robert C. Allen, who at that time, I think, was an assistant treasurer of our bank, who recommended to me that we lease the site at this location to establish a branch office.

Q. And this memorandum indicates, does it not, that the banking business in this area was being done out of your Germantown and West Oak Lane offices?

Mr. Price: I object to asking this witness to interpret a memorandum written by somebody else. He can tell what he knows and what he did, but I think if they want an explanation of what that was for or what it meant, Mr. Allen should be called.

By Mr. Reycraft:

Q. What is your understanding, Mr. Beadle, of what Mr. [fol. 1512] Allen told you?

Mr. Price: Subject to.
The Court: Overruled.
The Witness: Shall I read this memorandum?

By Mr. Reycraft:

Q. No, sir. Your understanding with reference to the office of your bank which was serving the business being done in this area.

A. (No response.)

Q. Now, at the bottom of the first page the memorandum indicates that your Germantown and West Oak Lane offices were serving the district; is that correct?

A. Oh, yes.

Q. And how far away were they from this area?

A. The Germantown office would be possibly 2 miles—I am guessing, about 2 or 3 miles. I can't recall actually. I think the West Oak Lane office would be about a mile.

By the Court:

Q. Where is the West Oak Lane office?

A. At 72nd and Ogontz Avenue.

Q. 72nd and Ogontz? Fully a mile.

By Mr. Reycraft:

Q. Now, Mr. Beadle, what was your understanding of the [fol. 1513] reasons which Mr. Allen gave you for establishing an office here, as appears on the second page of this memorandum?

A. One, that we could attract new deposits, ——

Q. Was another to protect existing business from competition?

A. Yes.

Q. Now, you considered, did you not, that a competitor might move into this site?

A. Yes—into this site?

Q. Yes.

A. Into this location, not necessarily this site. As a matter of fact, there are some there now.

Q. And you considered also that if a competitor moved in there it might affect your West Oak Lane and Germantown offices; is that correct?

A. Yes.

Q. Would this be the type of office which you have earlier described as a defensive office?

A. This would be a combination of the two. We think it could also be a profitable office from the standpoint of acquiring new business because it was a growing neighborhood, a potential area.

Q. Now, in your memorandum of March 29, 1957, apparently relying on Mr. Allen's memorandum, you recommended that an application be made for this branch, did [fol. 1514] you not?

A. Yes.

Q. And you made a similar recommendation to Mr. Smith on April 3rd?

A. Yes.

Mr. Reycraft: Will you mark as Government's Exhibit No. 79 a document dated February 28, 1956, relating to the establishment of a branch at Suburban Station Building, 17th Street and Pennsylvania Boulevard, Philadelphia.

(Eight-page document entitled "Application to Establish a Branch under the Provisions of the Banking Code of the Commonwealth of Pennsylvania, as Amended," dated February 28, 1956, covering branch at Suburban Station Building, Philadelphia, was marked Exhibit G-79 for identification.)

By Mr. Reycraft:

Q. Mr. Beadle, referring to Government's Exhibit No. 79, what is the approximate geographic area served?

A. I don't have it.

Q. Oh, you don't have it?

What is the approximate geographic area served by this banking office?

A. Primarily from the area immediately surrounding the location, which is made up of large office buildings and busi- [fol. 1515] ness houses and so forth.

Q. What is the type of banking business which originates in this area?

A. Individual, commercial, and industrial.

Q. Now, did your bank have existing banking business in the area before this branch was established?

A. Yes.

Q. Was one of the purposes of establishing the branch to more conveniently serve this business?

A. That was one of the purposes, though, of course, the other purpose primarily was that this was an area in which there was great development taking place and is continuing to take place; and our primary purpose, of course, was to capitalize on that development.

Q. To obtain new business in the area?

A. Yes.

Q. Now, what were the estimates with reference to the business which your bank did at that time in the area?

A. We had demand deposits, our estimate of business at that time was $12,500,000 of demand deposits, $500,000 of time deposits, and $3,500,000 of loans.

Q. And your estimate of future business?

A. $6,000,000 of time deposits, $1,000,000—pardon me. $6,000,000 of demand deposits, $1,000,000 of time deposits, [fol. 1516] $2,000,000 of loans.

Q. Now, this ratio of deposits to loans is roughly identical with the earlier estimates which were shown; is that correct?

A. I—yes, I guess they are, yes.

Q. Would this also be a neighborhood office?

A. No, this is not a neighborhood office.

Q. How would you categorize the type of office?

A. This would be a central-city office. This would be a full-size central-city office.

Q. And is this ratio of deposits to loans representative of other offices of this type?

A. May I make this statement about loans in connection with offices?

Mr. Price: I can't hear you, Mr. Beadle.

The Witness: What was that, sir?

Mr. Price: I can't hear you.

The Witness: I will make this statement about the loans in connection with offices of this size.

When these figures were made up or would be made up, for example, on the existing business, they would be the loans that may have been on the books at that particular time. It may not, however, represent all of the loans that had come because there may have been some that were off at the moment.

[fol. 1517] In other words, we didn't analyze everything we had, so that there may have been more loans in this office than would actually be indicated.

By Mr. Reycraft:

Q. Now, I am not sure that you answered my question.

I asked you whether this would be fairly representative of other offices in the same category.

A. Oh, I am sorry. No, I don't think so. I don't think there is.

No, I would say not.

Q. What do you think would be a more representative ratio?

A. I think it depends on the type of office it is. In other words, an office such as possibly—well, a different kind of office than this is would have a different category of loans or a different proportion of loans to deposits.

Q. Well, I would——

A. For example, an office, say our Arch Street office is in an area in which there is a very high concentration of small businesses, larger than that which is in a neighborhood office; but still smaller than that which is the Pennsylvania Railroad or something of the kind; and there is a higher percentage of loans compared to deposits in offices of that kind than there would be in an office of this kind.

[fol. 1518] Q. Approximately what would that percentage be?

A. I don't know what the percentage would be.

Q. You don't know the percentage in Arch Street?

A. No, no. We do not break down loans by offices.

Q. Do you know who made the estimates which appear in this application and in the other applications of loans?

A. No, I don't. I may have made them myself, but if I did, I don't recall.

Q. But it would be an estimate?

A. Yes.

Q. Can you tell me, you have had occasion, I take it, to make estimates from time to time on branch applications?

A. Oh, yes, yes.

Q. What would you base your estimates on?

A. Primarily on the type of office it was compared to a similar type office of our own.

Q. You would have a general idea as to the type of business originating in the area, would you?

A. Yes.

Q. And where would you get this from? From observing reports from the branch or reports of the officers?

A. Is this the new office or the old office?

Q. Well, first, observing, getting an idea of the existing business in the area; where would you get this from?

[fol. 1519] A. Going around the area, see what was there, and estimating what the business would be.

Q. You would know who your customers were and you would know the approximate amount of business which they did with the bank?

A. Yes.

Q. And this is a personal estimate which you, on occasion, made and which others made on a similar basis?

A. Yes.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 80 an application dated April 11, 1956, relating to the establishment of a branch at 23rd, Passyunk, and Rittner Streets.

(Ten-page document dated April 11, 1956, entitled "Application to Establish a Branch Under the Provisions of the Banking Code of the Commonwealth of Pennsylvania, as Amended," covering branch at 23rd, Passyunk, and Rittner Streets, Philadelphia, was marked Exhibit G-80 for identification.)

By Mr. Reycraft:

Q. Mr. Beadle, referring to Government's Exhibit No. 80, can you tell me the approximate geographic area from which the banking business of this office originates?

A. About roughly a half-mile radius of Rittner and [fol. 1520] Passyunk Avenue.

Q. Now, what type of banking business originates in this area?

A. Primarily individual and commercial; some little industrial.

Q. Now, the commercial would include, among others, Sears, Roebuck, Robert Hall, and Penn Fruit, would it not?

A. Yes.

Q. And I believe the application also indicates that it would include many smaller retail stores?

A. Yes.

Q. Now, can you tell me the approximate amount of business being done in the area by your bank prior to the establishment of this office?

A. $300,000 in demand deposits, $100,000 in time deposits, $150,000 in loans.

Q. And what was the estimate of new business which you thought this branch would attract?

A. $3,500,000 in demand deposits, $1,500,000 in time deposits, $500,000 in loans.

Q. Now, would this office fall into one of the categories which you have heretofore described, such as neighborhood?

A. Yes, this would be primarily a neighborhood office. [fol. 1521] It was, however, put at this site by reason of the fact that it was being developed as one of the largest shopping centers within the City of Philadelphia. It has developed to that extent.

There were a number of large installations there, so that also would have been a reason for establishing the office in this area.

Q. Now, the ratio of loans to deposits which appears in this application appears to fall within the same range as those ratios earlier; is that correct?

A. Yes.

Q. Now, page 4 lists, does it not, some of the commercial accounts which you expected to serve in this area?

A. Page 4?

Q. Yes.

A. Down at the bottom?

Q. Well, the next page which is also marked page 4.

A. Oh, I see. Yes.

Q. Would it be a fair assumption that you thought that those commercial establishments required banking services in the area?

A. Yes.

Q. And that is one of the reasons you wanted to put a branch there?

[fol. 1522] A. Yes.

Q. Now, do you know if the loan limit of the branch man-

ager there continues to be $5,000 commercial and $10,000 for collateral, secured?

A. Yes. It's $5,000.

Q. You think it is still the same?

A. It's $5,000 unsecured and $10,000 secured.

I might also add in connection with these that I didn't yesterday, that in these offices we also have assistant managers, who also have a loan authority, so that the combined loan authority of these men constitutes that loan which can be made in an office, so that the $5,000 refers only to one person. There may be more than one involved when it comes to making loans in an office.

Q. How many are there usually in a branch that have loan authority?

A. In a neighborhood office there are usually two, except in the Upper Darby offices. In most of those, there is only one.

In the City of Philadelphia offices, and particularly those —well, let me say this—in the City of Philadelphia offices, the main offices of the Upper Darby, Ambler, Narberth, and other larger offices, there may be as high as six or seven men that have loan authority. It varies from three up to seven or [fol. 1523] eight, depending upon the size office.

Q. Now, the Ambler and Upper Darby offices are somewhat different from your normal, from your other offices, are they not?

A. They are different only to the extent—they are not different, for example, from our Germantown office, our Second Street office, our North Philadelphia office.

They are different from our small neighborhood offices, but there are other offices similar to that in the sense which I am speaking of.

Q. Yes, but they are operated, are they not, as divisions of your bank?

A. Yes.

Q. What is the significance of a division of the bank?

A. Primarily location. I wouldn't say primarily location, but I mean it follows that it would be locationwise.

Secondly, there is a support given to the offices involved in the sense of loans, in the sense of supervision and things of that kind. It is an organizational concept.

Q. How many divisions does your bank have with reference to branches?

A. They have Upper Darby—well, we have Delaware [fol. 1524] County,—as regards to branches?

Q. Yes.

A. We have Upper Darby, Montgomery County, and Philadelphia. We have one, two, three, four.

Q. Four divisions?

Now, the Upper Darby Division is essentially the Upper Darby Bank which was acquired by your bank, is it not?

A. That is right.

Q. Is one of the purposes of maintaining the division to maintain the identity of that bank with the community?

A. That would be one of the purposes.

Q. And do you maintain any identity of the Board of Directors which existed in that bank prior to the acquisition?

A. The Board of Directors acts in the capacity as an advisory board.

Q. Would this be the same board who acted as a Board of Directors prior to the merger?

A. Generally, except some of them—there have been some new members appointed. Some of them have died and so forth.

Q. And what is the purpose of retaining the advisory board?

A. To retain their experience, their knowledge of the [fol. 1525] neighborhood, their knowledge of the area; to retain their experience in matters pertaining to that area; to retain their interest in the bank (they are important people) and there are a number of reasons.

Q. Now, do you also have an Ambler Division serving now?

A. Yes, we do.

Q. And this also is a bank which you acquired?

A. That's right.

Q. And the Ambler Division is substantially identical to the former Ambler bank; is that right?

A. Yes.

Q. Do you also have an advisory board for that bank?

A. Yes, we do.

Q. Do you have any other advisory boards?

A. We have an advisory board in the Narberth Division.

Q. This is also an acquired bank, is it not?

A. That's right.

We have an advisory board in the North Philadelphia Division.

Q. Was that also an acquisition?

A. That's correct.

Q. Are there any divisions which you operate which did not result from mergers?

A. The Philadelphia Division.

[fol. 1526] Q. This is your central-office division?

A. Those offices covering Philadelphia, largely Philadelphia—not all of them.

Q. But the other three divisions are, in effect, the same bank system which was acquired by the merger?

A. Yes.

Q. Has the Philadelphia Division any relation to the Corn Exchange merger?

A. Most of the offices, except those that were established as new offices, and except those Philadelphia offices which were acquired by merger, were offices of the Corn Exchange Bank, except, of course, those that were Girard.

Q. And in each case did you keep an advisory board for substantially the same purpose which you described earlier?

A. In each case?

Q. In each case where you have a division.

A. No. We have no advisory board for the Philadelphia Division.

Q. But for the other three you do?

A. Yes.

Mr. Reycraft: Will you mark as Government's Exhibit No. 81 a three-page document consisting of a covering memorandum dated July 1, 1955, and an underlying memorandum dated July 1, 1955. The top memorandum is from [fol. 1527] O. H. Beadle to Geoffrey S. Smith, Jr., and a second memorandum from Mr. O. H. Beadle to Mr. Geoffrey S. Smith, also.

(Two-page document consisting of two memoranda dated July 1, 1955, from O. H. Beadle to Mr. Geoffrey S. Smith, Jr., was marked Exhibit G-81 for identification.)

By Mr. Reycraft:

Q. Mr. Beadle, what was the occasion of your preparing the two memoranda which are marked as Government's Exhibit No. 81?

A. (No response.)

Q. I believe these relate——

A. To the South Philadelphia office.

Q. To the South Philadelphia office, which you have already discussed; is that correct?

A. Yes.

Mr. Reycraft: Will you mark as Government's Exhibit 82 for identification a three-page memorandum dated September 9, 1955?

(Three-page memorandum dated September 9, 1955, from O. H. Beadle to Mr. Geoffrey S. Smith, Jr. was marked Exhibit G-82 for identification.)

By Mr. Reycraft:

Q. Mr. Beadle, have you, since we have discussed this matter yesterday, obtained any further information concerning the availability of information on loans by the branches?

[fol. 1528] A. No. I have not.

Q. You have not?

Have you obtained any further information with reference to the loan limit of the managers of the branches?

A. Yes. I have.

Q. What is that information?

A. The loan limits for individual men in our branch system vary from $2500 unsecured and $5,000 secured to $100,000 unsecured and $200,000 secured.

Q. Are you reading from a list of your loan limits?

A. Yes.

Q. Is that a copy we might have marked for identification? Is that an extra copy?

A. I do not have an extra copy. I guess there are extra copies.

Q. May I examine it?

Mr. Reycraft: We will mark this for identification and we can give you a copy back if you need it.

The Witness: You had better get——

Mr. Reycraft: Will you mark as Government's Exhibit No. 83 an eleven-page document headed on the first page "Class I Commercial and Collateral, $2500-$5,000."

(Eleven-page document entitled, "Class I Commercial [fol. 1529] and Collateral, $2500-$5,000," was marked Exhibit G-83 for identification.)

By Mr. Reycraft:

Q. Now, there are ink changes on this. I take it that the purpose of this is to bring it up to date? Is that so, Mr. Beadle?

A. I presume so. I did not prepare it.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 84 for identification a two-page document dated June 12, 1961, concerning consumer credit department loan authority.

(Two-page document headed "Girard Trust Corn Exchange Bank," dated June 12, 1961, entitled "Consumer Credit Department Loan Authority," was marked Exhibit G-84 for identification.)

[fol. 1530] Q. Mr. Beadle, do you have any knowledge as to why the bank did not keep records of loans of branch offices?

A. I think it is very difficult to do. It is not necessary to do it.

Q. Is it in part because most of the important loan activity is handled in the main office?

A. No.

Q. You wouldn't think that is true?

A. Well, let me say this: Most of our loans are small numerically. Most of our loans are small loans which are handled in branch offices. Large loans are handled mostly in our main office, by men in our main office.

Q. I realize it is difficult to generalize, but can you tell me what you mean by large and what you mean by small?

A. May I make another comment here? That isn't entirely correct either. It happens that our senior loan officers are at our main office, and they are the ones that handle our large loans. On the other hand, we have one of our divisions,

our Northwest Loan Division, located in our Germantown office, which don't handle very large loans there, so it is more a question of where the people are, rather than saying it is done at the main office or this or the other place.

A large loan, in the way that I used it, in the term that I [fol. 1531] used it, where I said the majority of our loans are small loans, that would be a great preponderence of our loans are under $25,000. Now, I don't mean that I call over $25,000 necessarily a large loan, but that was the way in which I used it, that we have a great number of loans under $25,000.

Q. And these would for the most part be in your branch offices?

A. That is correct.

Q. You say most of your senior loan officers are in the head office. Approximately how many senior loan officers are there?

A. If I had that schedule of loans, I could tell you.

(Mr. Reycraft handed a document to the witness.)

A. (Continuing) Those with commercial authority, excluding collateral loan officers, and so forth, I would say there is approximately 18—over $50,000, pardon me.

Q. Approximately 18 are at the main office?

A. No. I didn't say that. There would be 12 in the main office.

Q. Twelve in the main office out of a total of 18?

A. Approximately.

[fol. 1532] Q. And if a branch manager receives an application for a loan in excess of his lending authority and the combined lending authority of his assistant, does he then refer the matter to the head office for approval?

A. No, he refers it to his division head, depending upon where that division head may be, or someone. He doesn't have to refer it to a division head. He can refer it to any officer who either has that authority or who, combined with him, has that authority, and that may be anyone.

Mr. Reycraft: That is all.

The Court: Let me get another point of reference here, Mr. Reycraft. I happen to know something about Philadelphia and the area surrounding it. A person lives within 300 yards of Stenton Avenue and Washington Lane. He has

a nice home. He also owns a nice business located in a heavy industrial area. He may do business with the Girard. He may borrow a half-million dollars from them. Does that mean that that originates in that area?

You said, where does your business originate? Here is a customer that lives within 300 yards of that bank maybe borrowing a half million dollars. Are you talking about that business originating there or at the site of the place of [fol. 1533] business? There are different points of reference, and I want to make sure that I understand what you are talking about.

Mr. Reycraft: My understanding, sir—and I would like to confirm it with the witness—my understanding of business originating in the area would be that if the business is physically located in the area, that that would be the point of origin of the business. I realize there would be situations where personal relationship might be more important.

By Mr. Reycraft:

Q. May I ask you, sir, to confirm whether this is correct or whether you have a different understanding?

A. Let me say this: It isn't that simple to answer. I can't answer yes or no. It is very complicated. The allocation of deposits in a particular location is extremely complicated, and certainly a person that lives in an area that carries a savings account in the vicinity of a branch, certainly business is originating out of that locality. On the other hand, if he does have a business in the area and happens not to want to come downtown, which many customers do not want to do, and happens to do it because he knows the manager of West Oak Lane, well, it might be allocated to that office, even [fol. 1534] if the thing isn't physically located there.

Again it may be another way. It may be located in the area, and he wants to do business with a man in some other office, so that office may have it allocated. It is not cut and dried; it isn't black and white.

Q. Well, if I understand you correctly, there would be all kinds of reasons why people would do business at various branches throughout the city or the main office?

A. Yes. Our very largest customers, many of them, may do business in three offices. They may do business at the main office because of some reason and yet they may do busi-

ness in our branches also. They may have payroll accounts.

Q. So that for customers of this type the availability of service in various areas is important, would you say?

A. Convenience is an extremely important thing, and it is one of the reasons you establish a branch.

Q. And yet if there are personal relationships or other factors of the type you described, business could be done at any one of a variety of offices where the geographical factor might be less important?

A. We have many customers that do business in ten offices because they may have branches in different places. [fol. 1535] They may have collections, and yet they may have a very large account and do business in ten neighborhood offices.

Q. So that you can't really compartmentalize the branch areas, say, within a half mile or three-quarters or one mile? This is a generalization, is it not?

A. Well, it is a generalization to this extent, that if you have been in the business long enough, and you know what an area is, you can generalize—you hope you generalize; sometimes you make mistakes—of what business you expect to get out of an area, but that doesn't mean you can be specific about all the business either in or out of the area. It is a generalization, but it is a pretty good experienced guess, or you try to make it so.

Q. You would be still trying to get business maybe three or four miles away from that branch as well?

A. You try to get business anywhere.

Q. Anywhere in town; is that right?

A. Or out of town.

Cross-examination.

By Mr. Price:

Q. Did I understand you, Mr. Beadle, to say that there were only 18 lending offices in the central main office of the bank?

[fol. 1536] A. No, sir.

Q. What was the 18?

A. I said that had authority over $50,000. I just counted that roughly, and it may not be exact.

The Court: It is 11:00 o'clock. We will take our mid-morning break.

(A 10-minute recess was taken at 11:00 o'clock A.M.)

By Mr. Price:

Q. Mr. Beadle, we were talking about the lending limits of lending authority. The lending limits that were mentioned in the applications represented the lending limits of whom, lending authority of whom?

A. In the application, sir?

Q. Yes.

A. They represented the lending authority of the managers and/or officers that were in the office at that particular time.

Q. Then as the offices got in operation, what was the arrangement for taking care of loans which might be in excess of the authority of those managers?

A. Those men could refer to any other officer of the bank who had sufficient authority to make the loan requested, or any officer whose loan authority together with that person [fol. 1537] would be sufficient authority to make the loan. From a practical standpoint, the loan territories are divided into five groups, and these men in the branches would practically refer to somebody in that group with whom they were either working or something of that kind.

Q. So they didn't have to come down to the main office at Broad and Chestnut?

A. No, sir.

Q. And were each of these local branches staffed and equipped with people competent to grant loans of any size that originated in those areas?

A. Yes, sir.

Q. So that the lending limits or lending authority of the branch manager didn't represent the limit of the capacity of those branches to handle loans?

A. No. May I make one change in what I just said, Mr. Price?

Q. Yes.

A. The authority of the managers was never intended to cover all loans that may have originated in a particular office, because there may be a loan which comes up of a

couple of million dollars, conceivably, but from a practical standpoint the authority was given to the manager, depend-
[fol. 1538] ing upon what we consider to be the needs of the community, so that he would have the authority to cover the great majority of loans that would arise in his territory.

Q. That authority was intended to cover the run-of-the-mill business that would be generated from day to day?

A. Yes, sir.

Q. When something exceeded that, there were not only people downtown at Broad and Chestnut, but there were other officers out in these areas who were able to handle the excess requirements, were there not?

A. Yes, sir.

Q. So that each of these banks was fully competent and fully able and equipped to handle any business that might originate there, in the sense of somebody walking in and asking for service; is that correct?

A. Yes, sir.

Q. Now, with regard to the lending limits—and I am speaking now of lending authority rather than limits—the lending authority of officers in charge of branches which were acquired, were they normally increased as a result of the acquisition or merger?

A. Yes, sir.

[fol. 1539] Q. So that the capacity to handle business was enlarged in each case as a result of the merger?

A. Yes.

Q. Where the branches were acquired through a merger?

A. Yes, sir.

Q. Is that correct?

A. Yes, sir.

Q. Now, Mr. Beadle, will you go back to your memorandum of February 7, 1957, which was marked G-70, the one which you were interrogated about initially.

How did you come to make that memorandum in the first place?

A. The senior management of the bank determined in 1956, I believe it was, that they wanted to have some projection in the future of just what was happening and where the bank was going, which included, of course, an over-all picture of the branch situation, the economic situation in the four-county area, among other things. In addition to that,

they wanted the same type of information concerning the operating function of the bank, the loan function, the function of the trust department, the function of the investment department, and they asked the officers who were responsible [fol. 1540] for those functions to make a projection or a picture so that they could use it from the standpoint of planning. This was the part that I played in that over-all program.

Q. So that this back in 1956 was merely an effort of the management to look forward into the future and see what should be done, if anything, to improve or maintain their situation of these various activities of the bank?

A. Yes, sir.

Q. And you happened to be assigned the job of investigating the general situation so far as possible branches or possible mergers?

A. Yes.

Q. Was this for the purpose of picking out any particular bank or any particular branch for a merger or for establishment or a general survey of the situation?

A. It was a general survey.

Q. And in the course of that you made specific suggestions to illustrate your point, as I noticed in the memorandum and will come to them in a moment.

A. Yes.

Q. That is what those were for?

A. Yes.

Q. You mentioned on Page 3, in relating to competition, [fol. 1541] that it wasn't profitable to establish a branch in areas which were adequately served, and in the course of that you made some reference to the controlling authorities being unwilling to allow a branch to be established in a place where undue competition would result. Now, what does all that mean?

A. Well, at that time the banking authorities, No. 1, had never permitted—I better amend that—I believe at that time—I am not just certain of the exact date, that is all—I believe that around that time, and certainly prior to that time and maybe after that time, depending upon the date, the banking authorities had never in this part of the State of Pennsylvania allowed a branch office to be established across a county line.

Secondly, in making an application for a branch, it has been my experience that they wanted to find out the need for an office and whether or not the office would be profitable. Therefore, we were not able, no bank was able to just pick out a spot and say, "We are going to put a branch there," because the banking authorities made certain that if some bank had a location which was adequately serving the area, where they were providing proper service, that that office was protected to the extent that they didn't permit a lot of [fol. 1542] other banks to go in there which would, in effect, over-bank the area and at the same time result in a possible loss to the banks that went in there and certainly a possible loss to the banks that were already there.

Q. So that the banking authorities wouldn't allow unlimited competition between banks?

A. That is correct.

Q. And wouldn't allow the establishment of a branch which might lose money or cause existing branches to lose money?

A. That's my belief, yes, sir.

Q. So that the kind of competition which existed between these branches in the areas where banks existed in a home office or had other branches nearby, branches of other banks nearby, were all situations in which the banking authorities considered they all could make money?

A. Yes.

Q. And this unlimited competition that exists between manufacturing companies or selling companies, where one can go broke and nobody is concerned, doesn't exist in the banking business, does it?

A. No, sir. There are two things involved. One is that the office has to be profitable, or a bank has to be profitable, [fol. 1543] or else its depositors are not properly protected, and certainly its shareholders are not properly protected if the bank is not profitable.

[fol. 1544] Q. Well, now, in selecting any branch or any merger which you recommended or suggested as being desirable, what was the primary consideration?

A. The primary consideration was to make certain that it was going to be a profitable office.

Q. And then, in order to determine whether or not the branch or the merged bank would be profitable, what was

the first consideration that you gave to the factors which led you to that conclusion? Which were the paramount ones?

A. The adequacy of the potential, number one, population in general.

Q. Now, what has population got to do with it? How does population become a factor in establishing a branch bank?

A. Because it is from the population that you get your business. In other words, it is my belief that convenience plays a great part in the profitability of an office. An office has to be in such a location that a sufficient number of population, which would mean either individuals, commercial establishments, or industry—which would mean that your population would be in sufficient quantities and be convenient to a population of sufficient quantities so that you would attract business in sufficient amounts that would make it profitable.

In other words, in my experience, there would have to be [fol. 1545] a sufficient number of people—commerce, commercial establishments, or industrial establishments—and your branch would have to be located in relation to that population so that it would be convenient for them to do business with you, in order to make a profit.

Q. What is the first business that you have to get in a bank to make it profitable at all?

A. You have to get deposits.

Q. And is that the primary purpose that you have in establishing the branch banks in a particular place?

A. That's the primary purpose.

Q. To get deposits?

A. To get the deposits.

Q. Without deposits, you can't do business?

A. No, sir. You can't make loans.

Q. Now, is that why you were speaking about the focal point and the radius around a branch as being important?

A. Yes, sir.

Q. And what has been your experience as to the distance that people will come to a branch not in the central city, but in the outlying areas of the city, away from the central portion of it?

What is the normal radius that you consider effective? [fol. 1546] A. About a mile radius is the most effective radius that we have found that you have been able to get,

and that may be enlarged to a mile and a half to two miles, if you get out into the suburbs or further out, something of that kind.

But in the city, approximately three quarters of a mile to a mile; and outside of it, possibly a mile to two miles.

Q. And that is the area within which the great majority of people who come to your bank either live or have their business activity?

A. That is correct, sir.

I might also add that there have been a number of surveys made. I know I have read—this is not only my opinion, but there's been a number of surveys made about the convenience factor as it relates to banking, and there's any number of surveys that indicate that convenience is one of the most important factors.

Q. And how is convenience best served?

A. Convenience is best served by being on the spot and providing banking facilities to the area that needs them, that has the potential.

Q. Now, you mentioned, in connection with some of the branches about which you were asked by Mr. Reycraft, about the areas around them that you expected the bank to serve. [fol. 1547] Those areas were the approximations which you are now describing, were they not, in general?

A. Yes.

Q. Obviously, sometimes you will get business from a smaller area or sometimes from a larger area; but the areas that you gave were the average, were they?

A. Yes, sir.

Q. Indicated by these various surveys and your experience?

A. Yes, sir.

I wouldn't want you to think that you could just take a circle and put it around there; but that's a generality.

Q. Now, you mentioned something in connection with that not being precisely a circle. You mentioned something about physical characteristics of the area having an important factor.

A. Yes, sir.

Q. And you find that is an indication of this convenience element?

A. Yes, sir.

Q. And that if it is inconvenient to cross a railroad embankment or a main highway people won't come to a branch; is that it?

A. Yes, indeed, sir.

[fol. 1548] Q. That is your experience?

A. Yes, sir.

Q. Now, in these areas of Philadelphia that you described as being well served with banks, does that mean that there was one bank or more in the area which you were describing?

A. It could be either, sir. It could be one or it could have been more than one, depending upon the area.

Q. Your description of an area being adequately served didn't necessarily mean it had more than one bank?

A. No, sir.

Q. But if it was a large area and had a large population, obviously, you would need more than one?

A. Yes, sir.

Q. Now, these areas of Philadelphia that were mentioned included West Philadelphia. I think you said West Philadelphia was adequately banked?

A. Yes, sir.

Q. Did that include the extreme Southwest Philadelphia, the Eastwick Section?

A. No, sir. The comments that were——

Let me say this. This report gave a broad picture of a very large territory, which included the Counties of Philadelphia, Montgomery, Delaware, and Bucks.

That's a very large territory, as far as size is concerned, [fol. 1549] as far as population is concerned, and as far as focal points are concerned.

Q. Do you know how many hundreds of square miles that embraces?

A. Well, I did at one time, but I don't know, sir.

Q. Well, there are more than a hundred square miles just in Philadelphia alone, aren't there?

A. Yes, sir; but it's a very broad territory, and I was painting this with a rather broad brush, so that, therefore, when you talk about West Philadelphia or Delaware County, or Bucks, and you say it is adequately banked, you are saying in broad general terms.

When you are talking about West Philadelphia, for example, you have the Eastwick Section, which at that time

was completely and still is almost completely undeveloped, but which at that time we also knew was the subject of considerable study. It still is. As a matter of fact, the plans have come to the point almost of fruition.

That large Eastwick Section was at that time a prime—had considerable potential, so that West Philadelphia as a whole was adequately banked in its very wide sense, but it has the Eastwick Section, which is coming into its own, I hope, and I think right now.

Q. So that there were individual places, either spots or [fol. 1550] areas, throughout the entire City of Philadelphia which still might properly receive additional banking service in the shape of a branch bank?

A. Yes, sir.

Q. Even though the whole area might, in general terms, be described as adequately banked?

A. Yes, sir.

Q. Do you recall how many branches were actually opened after the date of your memorandum, which is February of 1957?

A. My recollection is that there were four, I believe.

Q. Can you name them?

A. Washington Lane and Stenton Avenue, 22nd and Somerset, Comly and Roosevelt Boulevard, and I believe South Philadelphia.

Q. You believe what?

A. South Philadelphia.

Q. Is that the one at Passyunk Avenue?

A. Passyunk Avenue, yes.

Q. That application was dated 1956.

A. Well, then it wasn't.

Let me see. There was Stenton Avenue, 22nd Street, Comly Street, ——

Q. 63rd and Ludlow?

A. 63rd and Ludlow, yes, sir.

[fol. 1551] Q. Now, you mentioned 63rd and Ludlow yesterday and described it——

A. I thought there were four, but I just couldn't get that.

Q. You described why that was done.

The Court: Why 63rd and Ludlow? It's on North 63rd Street, isn't it?

The Witness: It's 63rd and Girard, sir.

By Mr. Price:

Q. 63rd and Girard?

Well, that's the one, whether it is at 63rd and Girard or 60th and Ludlow.

It was 63rd near Girard?

A. Yes, sir, just below Girard.

Q. And that was to take up some slack that existed because your existing facilities were inadequate to meet the demands?

A. That's right, sir.

Q. Did you mention something about the estimate you made of the volume of deposits necessary to maintain a new branch? Is that the way you determine whether a branch may profitably be opened or not?

A. Yes, sir.

Q. And in all of the cases in which you suggested new branches, were the estimated deposits adequate to take care of the expense of running the branch?

[fol. 1552] A. Roosevelt Boulevard and Comly Street has only been opened two months, I believe it is; and, of course, we are not in a position to know whether that makes money or not, but I am pretty sure it doesn't at this stage of the game.

I think there is possibly one other office that is not profitable.

All other offices of the bank—and I am speaking of new offices now—are profitable, which means that our estimates of deposits and expenses so far have been right, though in a number of cases they haven't been right as yet.

Q. Well, that indicates that whether or not you open a branch is purely a matter of business judgment as to whether it is going to be as you anticipate or not?

A. That's right.

Q. And you have been right in all except possibly two cases?

A. We might be wrong in a couple of cases.

Q. In describing a new branch, you said something about opening one for defensive purposes.

A. Yes, sir.

Q. That was a term that you said was one of your own?

A. Yes, sir.

Q. Has the Girard ever opened such a branch?

A. No, sir.

[fol. 1553] Q. That was merely a description of what might be done if someone wanted to do it, but you weren't recommending it, were you?

A. No, sir.

There is always the defensive factor involved in opening an office if you have business there and you think it's a good location; but we have never opened an office for purely defensive reasons.

Q. You also used the term "risk office" or "risk branch."

A. Yes, sir.

Q. What was meant? What did you mean by that?

A. Well, that brings in the question of judgment again. Where you have an area which is not yet developed, but which you think may have some potential, and, therefore, if you establish an office in there you run the risk of not having guessed right in the first place; and secondly, even if the potential does take place, you may have picked the wrong spot, so that it is a risk to put an office in there before the potential has actually been developed.

Q. But it is for the purpose of anticipating a need which you expect to arise shortly?

A. It is one in which there is a potential and you expect to capitalize on it as it arrives, as it grows.

Q. Is the Fort Washington branch an illustration of that?

[fol. 1554] A. Fort Washington is an excellent illustration of that.

Q. How does that operate? How does that work? How does that work out?

A. It's working out very well. That's in a profitable position at the moment.

We lost money for, I believe, the first year; but we are now making a profit at that office.

Q. And that office serves industries in the industrial center, the Industrial Park?

A. Yes, sir, the Fort Washington Industrial Park; yes, sir.

Q. And that branch was put in just before those buildings went up, was it not?

A. That's right, sir.

What happened there, we felt that this was going to be a development which would contain banking potential as it progressed.

We put an office in there before there was really any potential, even if we capitalized on it all, before it was ready, in a sense, before we could capitalize on it, before anything was there is what it amounts to.

As that industrial section has developed, so has our business developed, and we have grown with it and have been able to take care of the needs of that section as it has developed.

[fol. 1555] Q. Was there any better way to grow with the area than doing just what you did?

A. No, sir, not that I know of.

Q. Now, in general, I think you answered a question of Mr. Reycraft to the effect that because of the generally well-defined situation in Philadelphia, merger was the only way in which a bank could effectively meet the needs of its own customers, its existing depositors who had moved out into the country or into a different area, and grow with the communities that were then expanding; is that right?

A. I didn't get the first part of that, Mr. Price.

Mr. Price: Would you read it to him?

(The pending question was repeated by the reporter.)

The Witness: Yes.

By Mr. Price:

Q. You had considered various possibilties of merger and several banks were named in questions asked you by Mr. Reycraft.

With reference to the Philadelphia National Bank, you said that that complemented Girard more than any of the others in the location of its branches and the nature of its business.

Was that correct?

[fol. 1556] Q. Now, how did that work, briefly?

A. Well, how it worked was this—that they, Philadelphia National Bank, or the Girard Trust Corn Exchange Bank, has a number of offices throughout the City of Philadelphia in various areas. The one place it didn't have, one place in

particular, one important place in particular it did not have an office, was in the general Kensington area The Philadelphia National Bank, however, did have offices in the general Kensington area, so that it complemented those of the Girard rather than overlapped them.

By the same token, the Philadelphia National Bank did not have extensive Philadelphia coverage and, therefore, did not overlap in Philadelphia.

The Philadelphia National Bank, on the other hand, had offices in such areas outside of the city as Conshohocken and Norristown, two examples, in which the Girard did not have an office.

The whole pattern of their branches and the Girard's branches fit in so that there wasn't any overlapping of these branches, and actually filled out a pattern which neither of them in themselves had.

Q. Was there any area in which a branch of the Girard and a branch of the Philadelphia National Bank did overlap?

A. There is overlapping in the center-city offices. There [fol. 1557] is an overlapping in the 69th Street area of one office, a comparatively small office.

They are the only overlapping offices.

Q. And all of the others were far enough apart so that they didn't interfere with each other's sphere of activities?

A. Yes, sir. My recollection is, without looking at the map, that there is no overlapping of offices of the Philadelphia National and Girard, except in that one case in 69th Street, excluding center city.

Q. Let me ask a few questions about these various applications, and I think that will bring out better than anyone else what I want to cover.

Referring to Government's Exhibit 80, which related to 23rd and Passyunk, have you got that in front of you?

A. No; sir.

Yes, sir. I have it now.

Q. Turn to page 4, where the estimate of the amount of business now being done in the area by the applicant, and that is the Girard, including time and demand deposits and loans was stated to be $300,000 on demand——

A. Yes.

Q. —$100,000 on time, and $150,000 on loans. You were asked about that by Mr. Reycraft.

[fol. 1558] Does that mean that people who lived in that area were doing that amount of business with the central office already, or how was it that you estimated the amount of business that was being done in the area by the bank?

A. Well, that estimate we took from our records. It didn't necessarily mean it was being done in our center-city office, but somewhere.

But on our records we picked out those addresses which were in the vicinity or in the general area; and that's how these records were obtained. They weren't necessarily in the main office.

Q. So that when you estimate the amount of business that the bank is doing in an area before you establish a branch there, it means that you have customers, depositors, or perhaps borrowers as well, who live within the radius you describe as being the effective area of the operations of a branch?

A. Yes.

Q. Then your estimates of new business were estimates of the amount of business you could generate in addition to the business that was already there, by virtue of having a branch close at hand?

A. Yes.

Q. And is that typical of the similar information in these [fol. 1559] other applications?

A. Yes, it is, sir.

Q. Now with regard to applications in general, you were asked about a number of applications for branches of the Upper Darby National Bank, the Narberth Bank, and the Ambler Bank, and so on.

Those were branches of those banks with which Girard was merging and which those banks already had; is that not the case?

A. Yes.

Q. And you are required by the regulations of the department to make an application for all the branches that these merging banks had, just as if there was a new branch being opened by Girard?

A. Yes.

Q. So that they didn't represent new acquisitions, but

were merely a part of the main bank with which Girard was merging?

A. Yes.

Q. Like the Upper Darby Bank and the Narberth Bank and the Ambler Bank?

A. Yes.

Q. Then it is only the branches that you described, such as Stenton Avenue, that were new branches created by the Girard initially?

[fol. 1560] A. Yes.

Q. The Suburban Station Building branch has, in addition to the regular services, a drive-in service as well, does it not?

A. Yes.

Q. And is that an important factor in the ability of that bank to serve the customers of the Girard?

A. We believe it is, yes, sir.

Q. Would you look at Exhibits 78, 78-A, and 78-C? That related to the branch at Washington Lane and Stenton Avenue and I think you spoke about existing service by Girard in that general area, did you not?

A. I have only Exhibit 78. What were the others?

Q. 78-A and C were two letters or two memoranda, one from Mr. Allen to you and the other from you to Mr. Smith, relating to that branch.

A. Yes.

Q. In the memorandum from Mr. Allen to you dated February 1st, which is marked 78-A, he said:

> "Competition arises chiefly from our own West Oak Lane branch which is three-quarters of a mile to the northeast and from Fidelity and P. S. F. S. which are located a little further north. The Germantown Saving Fund Office at Chelten and Wyncote is only five-eighths [fol. 1561] of a mile to the southeast, but it is out of the marketing area of the population we would expect to draw from."

Now, your Oak Lane branch was at 72nd and Ogontz, wasn't it?

A. Yes.

Q. And according to page 2 of your application, Exhibit No. 78, that was 4/5 of a mile or 8/10 of a mile from this new branch?

A. Yes.

Q. Did you consider that there would be much competition between this new branch and your 72nd and Ogontz branch?

A. Did we consider there would be much competition?

Q. Yes.

A. (No response.)

Q. That is almost a mile away. I am speaking now of Mr. Allen's comment to you about competition arising chiefly from our West Oak Lane branch, and I am asking you whether you would expect any competition from a branch that was nearly a mile away.

A. I think there would probably have been some competition.

Q. Overlapping at the edges?

A. Yes.

Q. But does your one-mile-radius formula apply in this area?

[fol. 1562] A. Yes, yes.

Q. Your estimate of new business that you would generate at this area was really new business, it was not business that you would take away from your existing operation; isn't that right?

A. That's correct. That's correct.

Q. And did this prove to be a profitable branch?

A. Yes, it has, sir.

Q. In your memo to Mr. Smith, 78-C, you said you had about $2½ million of deposits originating within the area and that you would expect to generate $3,000,000 in new deposits within five years.

A. Yes.

Q. That is because of the location of this new branch as distinguished from the Ogontz Avenue branch?

A. Yes.

Q. Will you look at 77-A, page 6, at the end of the typewritten paragraph near the top of the page, there is stated:

> "The merged bank will provide many additional banking services to this rapidly growing community. At the same time it will provide banking services for present customers of the bank moving to this area and to customers who now reside there."

[fol. 1563] Will you comment on that proposal and this general problem, with particular reference to customers of the bank moving into the area, as well as those already residing there?

A. This office at Haverford and Essex Avenues is in the suburban part of Philadelphia which, of course, has had substantial residential growth in the last number of years, and it's also had some commercial growth with the establishment of the shopping center at Wynnewood Avenue, and so forth.

As in the case of many Philadelphia residents, and as is the case of some of our commercial establishments, such as Wanamaker's, they have moved out of Philadelphia, or at least the individuals, some of them, have moved out, and commercial establishments, commercial companies, have established offices, stores in the shopping centers; and a lot of our former customers were out there where we had no branch location.

We were asked many times by customers of the bank why we couldn't locate a branch in the neighborhood, a branch on the Main Line, and so forth and so on.

It was very difficult to do because many of the spots have already been taken up, and here was an opportunity through this merger, with this office, to supply needs, the banking [fol. 1564] needs, of customers of ours who had moved into this area.

At the same time there were many—because of the development in the area, there was a great increase in population, and in this particular spot, prior to this particular location, there had been no branch until this office was put there, so that there was a great opportunity for increasing business through the increased population, both commercial and individual, that is in this area.

So, that's what the purpose of that paragraph was intended to be.

[fol. 1565] Q. And was that situation common to many of these branches that you either opened or acquired by merger?

A. Yes, sir.

Q. Was that one of the important factors which entered

into your considering it desirable to either acquire or open a branch?

A. Yes, sir. Surveys that were made indicated that the Philadelphia area as a whole was growing very slightly. The outlying areas were having a population growth, explosion, as the term is used at times. Their commercial establishments were increasing. Also their industrial establishments. Our customers were moving out. Other people were moving in. If we wanted to stay with our own customers and capitalize on the additional potential that was coming into the area, then the best thing we could do was to move out with them.

Q. Did you have a number of requests from your regular depositors?

A. Yes, we did, sir.

Q. Of that nature?

A. Yes, we did.

Q. And did you have any such requests from business customers as well?

[fol. 1566] A. Yes, we did, sir.

Q. Can you give me an example or two?

A. In these outlying areas?

Q. Of a business customer asking you to establish a branch or move into a particular area.

A. Narco, for example, National Aeronatic. I forget what Narco stands for, but Narco is an example that they were very much interested in the office at Fort Washington. There were no facilities there. They had discussed it with the Ambler National Bank.

Penn Fruit is an excellent example.

Q. Where was that?

A. Welsh Road and Roosevelt Boulevard.

One of the most glaring examples, I would say, would be National Biscuit Company. National Biscuit Company we have been soliciting the account for a long, long time, and they said to us, "When you put a branch up here, you will get some business from us."

So we put a branch up there. That wasn't the only reason, but I think that is a good example of the kind of thing we had happen.

Q. You mentioned a Comly Road branch, and I call your attention to Exhibit 73-A. Will you turn to that, please. You

spoke of competition up in that area. Do you recall what [fol. 1567] that is now?

A. Oh, I spoke of competition in this area since we have located the branch.

Q. That was the Fidelity?

A. That's the Fidelity south of this office and the Second National Bank west of the office, the Western Savings Fund west of the office; and the development which is taking place between this particular location and Frankford Avenue, which is to the east, which is being developed with row homes, with a number of commercial installations, in which there are applications right now, I believe, for at least commercial banks. That is about. I can't say exactly where these commercial banks are going, because they are simply applications, but it is in the general vicinity of this office.

Q. Is that a rapidly growing section?

A. It is a rapidly growing section. It still has considerable growth potential. There are a number of businesses already established there?

A. Yes, indeed, sir.

Q. This isn't what you would describe as a risk operation, is it?

A. Well, it is and it isn't. It is a risk operation to this extent: While there isn't substantial industry business [fol. 1568] there now, there is a great deal of open space and there is a great deal of growth potential still there. Now, it may be that when this growth continues, that it may develop into a spot which would make a better location than where we are, but only to that extent it is a risk for us.

Q. But so far as the area is concerned——

A. As far as the area is concerned, it has good banking potential.

Q. And large areas for dwelling houses and individual depositors?

A. Yes, sir.

Q. You referred to the Ambler National Bank and the branch there at Butler Avenue and Spring Garden Street, Exhibit 72-A.

A. Yes, sir.

Q. On Page 3 is listed the Ambler Savings and Loan Association and the Ellis Finance Company as other finan-

cial institutions in the area. Do they provide competition to your branch in that area?

A. They certainly do.

Q. It isn't only commercial banks in these areas where branches are established that provide you with competition [fol. 1569] particularly for individual deposits?

A. That's right, sir.

Q. On Page 12 of your memorandum, which is G-70, you referred as prospects for merger to both the National Bank of Narberth and the Ambler National Bank. Those were the two banks with which mergers ultimately were accomplished, were they not?

A. Yes.

Q. And to which these applications refer?

A. Yes.

Mr. Price: That is all. Thank you, Mr. Beadle.

By Mr. Littleton:

Q. Mr. Beadle, will you address yourself for a moment to the application for your branch at 6908 Market Street, Upper Darby. I believe it is 76-A.

A. Yes, sir.

Q. Turning to Page 3 of that, will you tell me from that or from your knowledge generally what other commercial banks are operating in that area besides your bank and the Philadelphia National Bank.

A. Right now there is the First Pennsylvania Company, the Liberty Real Estate Bank, Philadelphia National Bank.

Did you say commercial banks?

[fol. 1570] Q. Yes.

A. Those three.

Q. And how far is the First Pennsylvania Bank branch from your branch at 6908 Market Street?

A. The First Pennsylvania Company is around the corner. I don't know how far it is, but about a block away, maybe two blocks away.

Q. And the Liberty Real Estate?

A. The Liberty Real Estate is about one block away.

Q. The Liberty Real Estate has come there since you put your branch there, hasn't it?

A. Yes, sir.

Q. And in addition to that, if you will look at Page 3, the Western Saving Fund Society is in the same block there?

A. Yes, sir.

Q. Do you consider the Western Saving Fund to be in competition with you in certain areas?

A. I certainly do.

Q. And what other financial institutions are in the area?

A. There is the Associated Discount Corporation, the Beneficial Discount, the Citizens Finance Company, the Family Consumer Discount Company, the Household Finance Corporation, the Interstate Consumer Discount Com-
[fol. 1571] pany, the Lyons Finance Service, Inc., Seaboard Finance Company, Terminal Finance Company, and the Greater Delaware Valley Federal Savings and Loan Association.

Q. They are all in that immediate area?

A. In the general area.

Q. Do you consider them to be in competition with your branch at 6908?

A. Yes.

Q. Your answer is yes?

A. Yes.

Mr. Littleton: That is all. Thank you.

Mr. Reycraft: No questions.

HARRY J. HARDING, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Reycraft:

Q. Mr. Harding, where is your residence at the present time?

A. My residence happens to be at Walnut Creek, California.

Q. Have you ever lived in Pennsylvania, sir?

A. As a boy in Pike County.

Q. What is your occupation in California?

A. I am president of the First National Bank of Pleas-
[fol. 1572] anton, California.

Q. How long have you held that position?

A. About 26 years or 27.

Q. Were you in the banking business prior to that time?

A. Yes, sir.

Q. Whereabouts, Mr. Harding?

A. I started my banking career in New York City with the New York County National Bank, which was a neighborhood bank, about $15,000,000, in charge of the Credit Department, and by invitation later went, after about four or five years, to the Liberty National Bank of New York City as assistant credit manager, which was a relatively large bank at that time engaging in all types of commercial loans, buying commercial paper extensively for itself, for its correspondent banks, participating with other banks in loans throughout the country originating such participations; and in 1922 I, by invitation, went to the Oakland Bank of Oakland, California, where I was vice president in charge of commercial loans. At that time it was about a $45 million bank.

When that bank was sold to the Giannini Holding Company, I transferred to the American Trust Company of San Francisco as vice president and loan officer in their Oakland [fol. 1573] Office.

Q. How long were you a vice president of the American Trust Company?

A. A couple of years. I left I think it was the beginning of 1934 to devote my time to some civic activities which had some political undertones, and I wished to be free; and then in 1934 I became president of the First National Bank of Pleasanton at the request of the banking authorities, because that bank was having some problems, difficulties, by reason of the depression.

Q. How did that come about, sir, that you were requested to go to that bank, again?

A. Well, there were two banks in the same building in Pleasanton, one a national bank and one a state bank. The state bank was closed, and the proposal was made for the First National Bank to take over the assets of the closed state bank, and I went there at the request of the superintendent of banks, Ed Rainey, to handle that transaction for him. The National Bank authorities would not allow the deal to go through, I found, unless new management was supplied to the First National Bank, and they persuaded me to stay on at least temporarily until that was corrected. I

found the problems were considerable, and I stayed on and eventually bought control of the First National Bank.

[fol. 1574] Q. Mr. Harding, if I calculate correctly, this means you have been in commercial banking for about 47 years; is that correct?

A. About that.

Q. And during all of this time you have been experienced in handling commercial and industrial loans, have you not?

A. That is correct, practically entirely in lending.

Q. You have had an opportunity to observe banking practices in various parts of the country. Is it your opinion that they vary to any considerable degree?

A. Not to any considerable extent.

Q. What do you think the common factors are which make them the same?

A. Well, the common factors are that a commercial bank accumulates deposits of its customers and invests those funds in relatively short-time loans, self-liquidating loans, that are based upon the character, the ability of the borrower, and his financial responsibility, and also to make investments in bonds that have a ready market and are of a high type.

Q. And is one of the principal factors the necessity to maintain liquidity?

A. Correct.

[fol. 1575] Q. Mr. Harding, are you a member of any bankers associations?

A. I am a member of the American Bankers Association and have served that organization as a member of the Executive Committee and of the Committee on Federal Legislation for a period of three years. I am a member of the California Bankers Association and have served that organization as a member of the Board of Directors for a term of three years. I am a member of the Independent Bankers Association of the 12th Federal Reserve District and have served that organization as president for a period of about seven years. Prior thereto I was a member of the Executive Council, and at the present time I carry the title as honorary president of that organization and am also a member of the Executive Council.

Q. Can you tell me the geographic area covered by the

Independent Bankers Association of the 12th Federal Reserve?

A. The 12th Federal Reserve District covers the states of Arizona, Nevada, Utah, Idaho, Washington, Oregon, California, Alaska, and Hawaii.

Q. We have prior testimony, Mr. Harding, which referred to the Independent Bankers Association. Is your association different or the same?

[fol. 1576] A. There are two Independent Bankers Associations, but as far as Federal legislation is concerned, we work virtually as one. The eastern association covers the 11 Federal Reserve Districts. We cover just the western states. A part of that separation is historical, because we had a particular problem at the time our organization was formed that was not generally recognized east of the Rocky Mountains except in the Northwest.

Q. Why was your association formed, Mr. Harding?

A. Our organization was formed to try and prevent, as far as we possibly could, the monopoly of banking that was rapidly taking place in our continental states.

Q. How many members did you have at the time your organization was formed?

A. Well, in the early days we had an excess of 500 member banks.

Q. And what has been your experience with reference to the number of banks since that time?

A. There has been a steady decline in the membership. June 30 last year I believe our membership was down to 273. When our dues are collected next year we will probably find a decline in that, because a number of our banks are in the process of being taken over by larger banks.

[fol. 1577] Q. What is your opinion as to the reason for the decline in your membership over-all? Is it the one you just expressed?

A. The reason, of course, is a determined effort on the part of a number of the large banks in our area to seek representation in practically every section of the state in which they operate, and therefore they have constantly sought to buy and merge banks.

Q. You referred to a specific problem in relation to the formation of your association, a specific problem concerning monopoly. Is it one particular bank that you had in mind?

A. At that time we were very much concerned about the activities of a bank holding company which, contrary to the laws of the——

Mr. Littleton: If Your Honor please, I object to this line of testimony. We are not here concerned with anything having to do with a bank holding company, and we are certainly not concerned about California. I object to it as being irrelevant.

The Court: I think that is true.

Mr. Reycraft: Your Honor, I propose to offer the testimony to show the effects, in a substantial area of the country, of the extreme tendency to monopoly resulting from [fols. 1578-1579] acquisitions and mergers.

The Court: Before the Holding Company Act?

Mr. Reycraft: These are before the Holding Company Act, Your Honor. They are acquisitions and mergers nevertheless. He has an opinion with reference to the effect of this banking concentration on the community, and in that testimony I intended to ask him about it.

The Court: I am not too sure whether I am going to permit it or not. I want to do some thinking about it. I will see you at 2:00 o'clock.

(Recess taken at 12:20 P.M. until 2:00 o'clock P.M.)

[fol. 1580] [File endorsement omitted]

AFTERNOON SESSION

Present: Counsel as before noted

PLAINTIFF'S EVIDENCE (Resumed)

HARRY J. HARDING, resumed.

Direct examination. (Resumed)

The Court: The question asked is susceptible of a yes or no answer, instead of the beginning of expressions of opinion not warranted by the question.

The question was:

"Q. You referred to a specific problem in relation to the formation of your association, a specific problem

concerning monopoly. Is it one particular bank that you had in mind?"

You may answer that question.

The Witness: Yes.

By Mr. Reycraft:

Q. Mr. Hardin, what was the problem which resulted from that bank's activities?

A. The——

Mr. Littleton: Objected to unless we know what bank it is. [fol. 1581] The Court: This is a rather nebulous field anyway, Mr. Littleton. I have to allow considerable leeway. I am going to permit it.

Read the question.

(The pending question was repeated by the reporter.)

The Witness: The problem of the continuation of independent competitive banking in the State of California and in other states in the Twelfth Federal Reserve District.

By Mr. Reycraft:

Q. Why did you think that was a problem?

A. Because that institution was buying banks and merging them right and left and other institutions were forced into the same position, and there was virtually a race to obtain every and all banks that were available.

Q. Now, at the time your association was formed, could you tell me in a general way approximately what percentage of the banking business in California this institution held?

The Court: Read those last two words.

I missed them; you dropped your voice again, Mr. Reycraft.

I think they were "that that institution held"?

Mr. Reycraft: Exactly right.

The Court: What do you mean by "institution held"? [fol. 1582] I don't follow you.

Mr. Reycraft: What I mean, sir, is the percentage of banking business done by that bank in California.

The Witness: Probably at that time it was not over 25 per cent.

By Mr. Reyeraft:

Q. Since that time what has been the trend?

A. It rapidly increased in those early years of the thirties until it approached close to 50 per cent.

Q. Now, in your opinion did this trend have any effect on other banks in the area?

A. In various ways. Other banks started to expand in like manner.

Q. In what manner?

A. Either by acquiring existing, locally-owned and -operated banks, or by competing for the establishment of branch locations, de novo branches.

Q. Were there a large number of indepedent institutions in the California area at that time?

A. There were probably two and a half times as many as today.

Mr. Littleton: What time are we talking about in years?

Mr. Reyeraft: At the time of the formation of the [fol. 1583] association.

By Mr. Reyeraft:

Q. Will you state that date again?

A. The early thirties.

Q. And you say there were approximately two and a half times as many as there are today?

A. That is right.

Q. Do you have any knowledge as to the number of those institutions which disappeared by reason of merger or acquisition?

A. Well, I would say well over 150.

Q. Now, Mr. Harding, do you have an opinion with reference to the effect of this merger activity on the remaining independent banks which are now in existence in the area?

A. That's a broad question. It's had effect in various ways.

The institutions that have functioned have grown with the growth of the state.

It's hard for me to express too definite an opinion on that.

Q. All right, sir.

Do you have an opinion as to the quality of service offered by a branch as compared with the quality of service offered by a unit bank in an area?

[fol. 1584] Mr. Littleton: What branch and what bank?

By Mr. Reycraft:

Q. Will you address yourself, Mr. Harding, to the branch nearest your bank, the one which you are most familiar with?

A. Yes, sir. The branch bank located in Pleasanton, in the years I have been there, has had a number of branch managers who came from other locations, who, of course, were inspired with the ambition to develop in their own organization and move on to larger branches, if possible, and I think they endeavored to conduct their branch in as profitable a manner as possible.

I have no way of knowing the relative growth of the two institutions, except perhaps to compare them in the number of employees, but I do know that we have acquired quite a bit of business that formerly was transacted with the other institution.

Part of that was due to loan policies, part of it was due to the desire on the part of the local manager not to incur any criticism from head office, to play safe, in other words; pressure of many duties and responsibilities, which didn't permit perhaps the thorough study of local situations that we feel that we were able to give; and no great interest on the part of our competitor in the welfare of our community, because the managers never knew how long they were going [fol. 1585] to be there until they moved to another location.

Mr. Littleton: If Your Honor please, my objection continues to this whole line, and in addition I would like to move that all of this last testimony about what was going on in the minds of the managers of this branch be stricken out.

How does this witness know what his motivation was?

The Court: I will let it stay for what it is worth.

Mr. Littleton: All right.

By Mr. Reycraft:

Q. Mr. Harding, do you have an opinion with reference, as you observed it, to the incentive of the manager of that branch to make loans in the community in which the branch is located?

The Court: If he knows.

The Witness: Only in a general way, except a direct statement of some years ago by the local manager, when loans were hard to get and we were seeking loans, industries were low; and I did happen to comment to the manager about how he was succeeding in developing loan business and he said he didn't care or worry because the head office gave [fol. 1586] him a very liberal earnings credit for the excess deposits that he carried with the head office; and, therefore, on that basis, the branch was a very profitable operation to the chain.

Mr. Littleton: I move it be stricken because it is hearsay.

The Court: I will let it stay for the same reason.

By Mr. Reycraft:

Q. Mr. Harding, from your observation, do you have an opinion as to whether branch banking tends to remove deposits from the community in which the branch is located?

Mr. Littleton: The answer to that is yes or no, Mr. Harding.

The Witness: Yes.

By Mr. Reycraft:

Q. What is it, Mr. Harding?

Mr. Littleton: Objected to.

The Court: No. Let's get a point of reference here.

Mr. Reycraft: Yes.

By Mr. Reycraft:

Q. Will you state whether you are familiar with the relative business operations of a branch banking system and a [fol. 1587] unit banking system?

The Court: Are we talking about removing them from the city, the county, or what are we talking about? The state? The nation?

What are we talking about when you are talking about community?

Mr. Reycraft: All right, sir.

By Mr. Reycraft:

Q. Mr. Harding, will you describe the community to which you previously referred and with which you are intimately familiar, that is, the community in which you have a unit bank operating and in which there is a branch bank operating which you are familiar with?

A. Outside one case, we had an account of a chain-store organization, which was a substantial account. We lost that account to the branch because the branch entered into an arrangement whereby this chain-store organization deposited with the branch for immediate credit of the company at the head office of the bank.

By the Court:

Q. Cash deposits?

A. Checking deposits.

Q. Checking deposits?

[fol. 1588] By Mr. Littleton:

Q. You mean they gave immediate credit for uncollected checks?

A. Correct.

By Mr. Reycraft:

Q. Do you have an opinion, Mr. Harding, as to whether, on the basis of your observation and experience, a branch bank or a unit bank has the greater incentive and does, in practice, make more loans within its own community, that is, the area which you have referred to?

Mr. Littleton: The answer to that is yes or no.

The Witness: Would you mind repeating that?

Mr. Reycraft: Would you read the question, please?

(The pending question was repeated by the reporter.)

The Witness: Yes.

By Mr. Reycraft:

Q. What is your opinion, sir?

Mr. Littleton: Objected to.

The Court: Overruled.

The Witness: My opinion is based on my own observation locally, plus contacts with quite a number of branch [fol. 1589] managers, who, you might say, are personal friends, as well as other independent bankers throughout the state; and I will say, generally speaking, the locally owned and directed institution is much more aggressive in taking care of loan needs than is the branch operation.

By Mr. Reycraft:

Q. Mr. Harding, have you had an opportunity to discuss with members of your association some of the more important problems which they consider face them at the moment?

A. Certainly. Many, many times.

Q. And what are some of those problems?

A. One of the problems I mentioned is the ability or the solicitation by the large chain banks for accounts such as oil companies and chain-store companies, where they are given immediate credit at the head office for deposits made in branches.

Another problem is the situation that has developed by reason of one bank having a great many number of branches, the desire on the part of other chain organizations to come into that area and to obtain branch locations, either immediately adjacent to an existing independent bank or in an outlying area, with the result that there has been a serious number of branch applications filed.

After all, there is just so much banking business and [fol. 1590] spreading it around among five offices creates no more business than was previously handled by two or three.

The desire to get these locations has prompted offers being made to practically all independent bankers, directly through the Boards of Directors or publicly through the newspapers, where offers to buy the bank at substantial premiums have been made in order to get a location or a substantial deposit line.

Those are the things that worry and threaten the continued existence of competitive banking.

[fol. 1591] Q. What in your opinion is the future of competitive banking in your area?

Mr. Littleton: Objected to as being irrelevant to this issue.
The Court: I will permit it.

A. Not too bright.
Q. Why do you say that?
The Court: What do you mean by competitive banking?

By Mr. Reycraft:

Q. Do you understand what I mean by the term competitive banking, Mr. Harding?

A. By competitive banking I mean where an institution in a community is able to serve on a basis in competition with another institution, without having to face a large number of such competing offices in areas immediately adjacent. I mean, for instance, in our particular town we have ourselves a one-branch bank, but surrounding us within a reasonable distance we have other neighboring towns five or seven miles away where we may have one, two, three branches of either the same bank or other banks, so that a borrower who seeks to obtain a loan has relatively few places to go. For instance, if he is turned down by the branch of the Bank of America in our town, he can't go to the branch of the Bank of America five miles away. He has only ours [fol. 1592] to go to. So when I talk about competitive banking, I mean the factors that are practically eliminated. In other words, if these were all independent banks competing one against the other, instead of five branches which do not compete against each other, there is a diminution of competition.

Q. In your opinion, has the trend you have described seriously reduced the alternatives available to borrowers?

A. No question about it.

Mr. Reycraft: I haven't any further questions.

Cross-examination.

By Mr. Littleton:

Q. Mr. Harding, after you had been invited by the banking authorities in 1934 to come in and take over the First National Bank of Pleasanton, how long was it before you bought control?

A. That went over a period of time, I would say. The directors urged me to stay. I was rather reluctant to do so.

Q. Will you answer my question.

A. I am trying to. There was no individual had complete control of the stock, and the thing I was concerned about was acquiring enough so that the bank name wouldn't [fol. 1593] change next Tuesday morning, which meant at least one-third.

Q. How much do you own or control?

A. In the family about 50 per cent.

Q. About 50 per cent?

A. Yes, sir.

Q. That is you alone own or control that much?

A. My son, my wife, and daughter-in-law.

Q. You have unlimited branch banking in California, do you not?

A. By that you mean statewide?

Q. Yes, statewide.

A. Yes, sir.

Q. How many banks are there in California?

A. 117.

Q. And how many branches?

A. About 1500. Those branches are owned by six chains, and they control better than 82 per cent of the total deposits of the state.

Q. How many population banking units in California?

A. That I could not answer.

Q. Would you say about 9000 or don't you know?

A. I would say that would be very, very high.

Q. When did this branch that you are complaining about [fol. 1594] come into Pleasanton?

A. 1928.

Q. In the last ten years, Mr. Harding, your total assets have increased by how much?

A. That I couldn't answer, but I would say ten years ago they probably were about 2 million 8 and now they are about 4 million 6.

Q. About a 75-per cent increase?

A. And the population in that period has more than doubled.

Q. How about deposits in ten years?

A. I was thinking of total footings, but the deposits would be a little less than that on both occasions. I don't remember too well ten years ago.

Q. They have increased about 75 per cent?

A. About that, I would say.

Q. And your loans have increased by how much?

A. I would say probably better than a hundred per cent.

Q. Well, they were 879,000 at the end of 1951 and they are about what? 2 million?

A. They are 2 million now.

Q. That is about a 120 per cent increase.

A. All right. I don't remember the exact amount.

Q. Didn't you tell us a minute ago that you took a lot of [fol. 1595] customers away from this branch?

A. That we took a lot of customers? When you talk about a lot of customers——

Q. Did you testify to that in direct?

A. I said we had taken some customers away who had not been able to get adequate loans.

Q. How about your lending limit? Has that increased in ten years?

A. Certainly. We plowed back earnings, and I would say that in ten years it has probably increased maybe six or eight thousand dollars. Our present loan limit is $20,400.

Q. And you are competing vigorously with this other branch bank?

A. I think so.

Q. Your average rate that you charge on loans, is it lower than what this branch charges?

A. We have not too definite information on that, but I believe that to be the case. In certain areas where we are able to ascertain the figures through people who come to us, who have been to the other bank, I would say that our rates are slightly lower.

Q. How about your average salaries? Have you had to increase your average salaries because of this other bank [fol. 1596] being there?

A. I don't know what they pay and I don't care. No, they haven't forced us to increase salaries.

Q. You don't know what the relative salaries are at all?

A. No, sir.

Q. You have been very active, have you not, in this Independent Bankers Association?

A. I think so.

Q. You are presently honorary president?

A. Yes, sir.

Q. And you have appeared in Congress and before Congressional committees?

A. Many times.

Q. Advancing the ideas and principles of that association?

A. Anti-monopoly principles.

Q. Anti-monopoly, anti-holding company?

A. Yes, sir, a holding company being one means by which monopoly is developed.

Q. And am I not correct that three or four years ago you developed a plan or theory which you broached at a convention of your Independent Bankers Association?

A. That is correct. That was my own idea. It was a general idea.

Q. Let me ask you if these aren't the principal features of that plan: That no merger be approved in cities of 10,000 [fol. 1597] or less population when the result will be two or less banks located in the city in which the merging bank is located.

Is that correct?

A. Correct.

Q. That no merger be approved in cities of 10,000 to 25,000 population when the result will be three or less banks located in the city in which the merging bank is located.

Is that correct?

A. That is right.

Q. That no merger be approved in cities of 25,000 to 100,000 population when the result will be four or less banks located in the city in which the merging bank is located?

A. That is right.

Q. That no merger approved in cities of over 100,000 population when the result will be five or less banks located in the city in which the merging banks are located:

Is that one of your principles?

A. That is correct.

Q. And you still adhere to that principle?

A. That was——

[fol. 1598] Q. Do you still adhere to that principle?

A. Bear in mind, I didn't recommend that that be adopted. If you read that speech very carefully, you will see that I said that I was suggesting that as a basis of discussion. I had no consultation with anyone or no scientific basis on which to suggest that except my desire to stimulate thinking on this merger and monopoly problem, and I was primarily thinking of banks in cities where no branches were permitted, as is the case in a number of states.

Q. Is it incorrect that at the Independent Bankers Association meeting of 1957 in Miami Beach you proposed these legal standards for mergers?

A. Will you read my remarks where I proposed those legal standards.

Q. No, I haven't got your remarks. I am asking you if you proposed those legal standards.

A. I suggested those as a basis for discussion.

Q. But they were your suggestions?

A. Correct.

Q. Now, did you also say at that time, "Nor shall any merger be approved under this act when the result will be that the merging bank will hold more than 30 per cent of the total banking deposits in the area in which the merging [fol. 1599] bank has offices"?

A. That is right, but I did not say that mergers be permitted until we reach that so-called minimum of 30 per cent.

Q. Where did you get this figure of 30 per cent as the ideal?

A. From my head.

Q. And if it had been 28 per cent, I suppose you would agree with that?

A. I was not setting a hard and firm standard. I was making a speech trying to stimulate the thinking of bankers and banking authorities.

Q. And, of course, the ideal percentage in your thinking would vary with the situation in each city, wouldn't it?

A. I think you have to have some elasticity in any proposal of that kind.

Q. And if it were 32 or 33 per cent in some cities, that would be all right, in your estimation?

A. Well, I can see in a small town that would have, say three banks, perhaps you might justify 33 per cent.

Q. In other words, this wasn't a hard and fast 30 per cent? It could vary either way, as you say, some elasticity, dependent on the particular situation in the particular community; is that correct?

[fol. 1600] A. That is correct. As far as my idea was concerned, that is all it was.

Q. In order to determine what the ideal would be, you would have to look at banking and the banking situation in each community, would you not, in order to determine what the ideal percentage would be in that community?

A. Yes, sir. Other factors would enter into it besides the mere percentage of deposits.

Q. Your ideas on merger and what you call monopoly you have advanced to Congress and to Congressional committees, haven't you?

A. Yes, sir.

Q. And did you or your association present its views at the time Congress passed the amendment to the FDIC Act in 1960?

A. Yes, sir.

Mr. Littleton: Thank you very much, Mr. Harding. That is all.

By Mr. Price:

Q. Mr. Harding, you described the growth of your bank in the last ten years in the face of the competition offered by the Bank of America branch in your town. Is that the one that you are competing with?

A. Yes, sir.

[fol. 1601] Q. What is the bank in the adjoining town or towns that you referred to?

A. The adjoining town is the City of Livermore, which has had a tremendous growth in population. From about 4000 25 years ago it has grown—and most of that growth in the last six or seven years—to about 20,000.

Q. What is the bank in that town?

A. There are three branch banks.

Q. Branches of what?

A. The Anglo-California National Bank, Bank of America, and the Wells Fargo American Trust.

Q. So that someone in that town has three choices of banking facilities?

A. They have four choices, because we are close enough. They can come to us.

Q. So that there are four choices, then, in both of those towns?

A. I would think so.

Q. And there is active competition among all of those banks including yours?

A. I would say yes.

Q. Do you remember in your testimony before the Senate Committee saying that you thrived on that competition with the Bank of America?

[fol. 1602] A. We thrived?

Q. Let me read what you are reported to have said, and then you can tell me if this is correct.

A. Sure.

Q. This is at the hearings before the Subcommittee of the Committee on Banking and Currency, or the hearings on Bill No. 1062, February, 1960.

> "Mr. Harding: Mr. Chairman and members of the Committee: My name is Harry J. Harding. I am president of the First National Bank of Pleasanton, Pleasanton, California, a $4 million bank. There was a branch of the Bank of America in our town, and in a town five miles away there were two branch banks, with a third one to open. I mention this to show that our bank has plenty of competition and we thrive on it."

Do you remember saying that?

A. Yes, sir.

Q. And that was correct, wasn't it?

A. We thrive on it because of the loan policies of the branches, our ability to take the time to analyze a situation and to make loans that they are not inclined to do.

Q. They don't interfere with your ability to make such [fol. 1603] loans as you desire, do they?

A. Interfere?

Q. Yes. You say you make loans in spite of their policy; is that so?

A. I wouldn't say they interfere with our ability, no.

Q. And this difference of approach is a personal one, is it not, which could be changed in these branch banks of the larger institutions, such as the Bank of America, by having

more intelligent representatives present in your community; isn't that so?

A. Partly, and partly policy of the institution.

Q. Well, the policy is one that you disagree with because you think it doesn't work; is that right?

A. Can I cite an experience?

Q. Certainly.

A. Some years ago the Bank of America wouldn't lend a farmer on farm equipment under any circumstances. We would. That was their policy, and no branch manager could make a loan on farm equipment, and lots of their customers financed their equipment with us. So it isn't only a matter of the local individual; it is a matter of the head office policies.

When credit became scarce for home construction about a year and a half or two years ago, we got applications by [fol. 1604] telephone from builders as much as 60 to 80 miles away, because when one office changes its policy in a chain bank, 707 offices change their policy, and when the head office says cut down on real estate loans, they all cut down; and the building industry in California was virtually at a standstill because there was only wee little independent banks that had money to loan.

Q. And that is possible in California because there is statewide branch banking under the California law; is that so?

A. That is correct.

Q. So that this condition you are describing is one that is authorized by the local California law?

A. That is right.

Q. You disagree with that policy, do you not?

A. The policy of statewide banking?

Q. Yes.

A. I don't think it pays to disagree. It has been there on the books so long, there is no quality. I wouldn't recommend it to any other state.

Q. Then so far as these illustrations you have given us are concerned, they could be cured by a wiser policy adopted by the larger banks, could they not?

A. I would imagine so. I would imagine if a branch [fol. 1605] manager had complete latitude and complete support from the head office, other than perhaps possible

criticism, I think you would find things would be different. [fol. 1606] Q. So that if the situations you are describing were entirely within the discretion of the branch manager, he could act as independently as you do, couldn't he?

A. In many respects, yes.

Q. And if he were as well informed about the needs of the community and had as good business judgment as you, he could do as well, couldn't he?

A. He probably could.

Q. So that your preference for the local bank as against the branch of a large bank turns entirely on the question of the actual management of the branch, does it not?

A. Not entirely.

Q. What is there beyond the way the local manager operates the bank that makes the difference?

A. Would you mind reading the preceding question?

(The question was repeated by the reporter as follows:

"Q. So that your preference for the local bank as against the branch of a large bank turns entirely on the question of the actual management of the branch, does it not?")

The Witness: And I said not entirely.

My preference for the local bank is that I believe or I am [fol. 1607] opposed to monopoly, and there is monopoly in many ways—in size, in policies—I mean by that destructive competition which is possible with a large institution, as well as monopoly of location.

If, for instance, we have in our situation a number of branch banks surrounding us, all these banks located at locations where it was assumed they would build up deposits, that institution has a monopoly on locations, say five, six, eight times as great as our own would be.

You heard testimony that a survey showed that about 50 per cent of the people opened accounts not because of the bank name, but because of location; and any institution, any branch institution that has five locations to our one has five times as many chances to attract business as we have, so we have a situation of monopoly as well as policy in loans.

By Mr. Price:

Q. Well, there is no monopoly in your town, is there?

A. Do you mean complete monopoly?

Q. Yes.

A. But the fact does remain that the people have five times as many places to go as our location.

Q. Yes, but you say there is no monopoly in Pleasanton, is there?

A. In what?

[fol. 1608] Q. No monopoly in——

A. I didn't hear that, sir.

Q. There is no monopoly in Pleasanton, your town?

A. Pleasanton?

Q. Yes.

A. Complete monopoly, no.

Q. And in the adjoining town there is no monopoly there, either, is there?

A. No.

Q. And in your town, Pleasanton, there are two banks and in the adjoining town there are three?

A. That's correct; so we are competing with four banks.

Q. Yes.

A. In four locations.

Q. How many one-bank towns are there in this country, do you know?

A. In this country?

Q. Yes.

A. I wouldn't be able to answer that any more than I can answer the one-bank branch in California.

Q. Do you know approximately?

A. No, sir.

Q. Do you know approximately how many two-bank towns there are?

[fol. 1609] A. No, sir.

Q. Five banks was the largest number that you suggested for cities in excess of 100,000 population, wasn't it, in your suggestion to Mr. Littleton?

A. As an absolute minimum.

Q. Oh, no. Your suggestion.

A. That's right.

Q. And that was the only number you suggested for towns or cities of 100,000 and over?

A. That's right.

Q. Yes, and was that because you considered that with at least five banks, or six, because I think that was the minimum—it had to be more than five—with at least six banks, you couldn't have a monopoly such as you have been describing, could you?

A. Unless one of those banks had fifty branches and the others had none. Then I would say that one bank had a monopoly.

Q. But assuming that they didn't have a disproportionate number of branches, then there wouldn't be any monopoly with six banks in the city, would there?

A. I would say not.

Q. This situation to which you object in California is one that is voluntary so far as the owners of the small [fol. 1610] banks, as well as the owners of the large banks are concerned, is it not?

A. Not entirely.

Q. If the owner of a bank, such as you, controlling 50 per cent or more of the stock, desires to sell it——

A. I could do so.

Q. —you could do so and that is your choice, isn't it?

A. That is right.

Q. Sure.

A. But if the offer comes from an institution that had a permit to establish a branch across the street, that might be a consideration that would enter into the transaction.

Q. In other words, the threat of that competition might be sufficient to bring you to the conclusion you might better sell?

A. It could.

Q. And such competition would be authorized under the California law, would it not?

A. Yes, sir; or the National Bank Act, either one.

Q. In your activities in connection with legislation, did you ever take part in those which were designed to impose taxes on mutuals and savings and loan associations?

A. Would you mind repeating that again?

The Court: Read it.

[fol. 1611] (The pending question was repeated by the reporter.)

The Witness: Only as a member of the American Bankers' Association and the Independent Bankers' Association.

By Mr. Price:

Q. Well, you were representing the Independent Bankers' Association in that activity, were you not?

A. No, sir.

Q. You were representing yourself?

A. No, sir.

Q. What part did you play in it?

A. I don't know what part you had reference to.

Q. Any activity encourage the imposition of taxes on mutuals and savings and loans.

A. I haven't, to the best of my knowledge, taken any active part in that program.

Q. Oh, you have not?

Has your association?

A. A very inactive one, because we have left the leadership in that movement to eastern—the ABA and the Independent of Sauk Centre.

Q. Then the Independent Bankers' Association, not the one that you belong to, but the one that covers the other [fol. 1612] eleven districts, has been active in that?

A. Very much.

Q. And why did you not interest yourself in that subject?

A. Wait a minute. You said "interest yourself"; the other was active part.

Q. Yes.

A. Well, we were interested, very much interested. We are in favor of tax equality, but we took no active part because in the formation of this committee by the American Bankers' Association, the eastern association was included. We were not invited, and as far as we are concerned, that's sufficient.

Q. But you were interested in the success of that program?

A. That's right, sir.

Q. That is because you are in competition, I presume, with savings and loan associations and mutuals—or not mutuals, because you haven't got any, but savings and loans?

A. Yes, sir.

Q. Are there any mutual associations in California?

A. Yes, sir. There are a number and there are a great many stock savings and loan associations.

Q. I see.

And you are in competition with both of those groups? [fol. 1613] A. We have one at Livermore.

Q. I say you are in competition with both of those groups?

A. Yes, sir; correct.

Mr. Price: That's all, thank you, Mr. Harding.

By the Court:

Q. What is the population of Pleasanton?

A. A little more than 4,000, sir.

The Court: Thank you.

Mr. Reycraft: Thank you, Mr. Harding.

Mr. Reycraft: Mr. Worstall.

E. Lawrence Worstall, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Reycraft:

Q. Mr. Worstall, where do you live?

A. I live in Lansdowne, Pennsylvania.

Q. And what is your occupation?

A. I am Senior Vice-President of the Philadelphia National Bank.

Q. What are your duties there, sir?

A. My duties are administration of retail and commercial [fol. 1614] banking.

Q. How long have you acted in that capacity?

A. The last four years.

Q. What were your duties prior to that time?

A. Branch administrator.

Q. And how long have you been with the bank all together?

A. 29 years.

Q. Do you have any present duties in connection with the branch activities of your bank?

A. Only that the man in charge of branches reports to me.

Q. So that it is indirectly one of your responsibilities?

A. Yes.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 85 a document headed "Information for Examiner in Connection with Proposed Branch of the Philadelphia National Bank in Ardmore, Pennsylvania."

The Court: How many pages is that?

Mr. Reycraft: I will count them. Your Honor.

The Court: Numerous pages?

Mr. Reycraft: Numerous pages, I am afraid, sir.

The Court: All right.

(32-page document entitled "Information for Examiner in Connection with Proposed Branch of the Philadelphia [fol. 1615] National Bank in Ardmore, Pennsylvania," was marked Exhibit G-85 for identification.)

By Mr. Reycraft:

Q. Mr. Worstall, do you have any familiarity with the branch at Ardmore, Pennsylvania?

A. Yes. I am generally familiar with it.

Q. And are you familiar with the circumstances surrounding the application for the branch?

A. I was interested in it at the time we made the application, yes.

Mr. Littleton: Keep your voice up.

By Mr. Reycraft:

Q. Can you tell me, describe for me, Mr. Worstall, in a general way the area in which the Ardmore branch is located?

A. Yes. It's a residential area and an area of stores.

Q. Approximately what population is served by that branch?

A. What page is that?

Q. I don't know. I thought you might know.

Mr. Littleton: Page 1.

Mr. Reycraft: On the first page, paragraph 3.

The Witness: 12,000.

By Mr. Reycraft:

Q. Is this the area which, to your knowledge, the branch [fol. 1616] serves?

A. Yes. I would think so.

Q. And essentially what is the radius or the circumference of the area which is so served by the branch?

A. Our service area? Well, I would say it would go north about three miles to the Schuylkill River, and then it would go south possibly a mile and a half beyond our office, and on either side, east and west, maybe east a half a mile to three quarters of a mile, and west possibly two miles.

Q. Do you know what the total deposits maintained in that office are at the present time?

A. At the present time? I'd prefer that you get that from the comptroller. I can give you a guess at about $3½ million.

Q. Do you know what the loans are at that office?

A. I'd prefer that would come from the comptroller. I don't know exactly. I imagine it's around $1,800,000.

Q. All right, sir.

Mr. Worstall, is it correct that within three to five miles of this branch there is a branch of the Girard Trust Corn Exchange Bank?

A. Within three to five miles; that is right.

Q. And it is practically 4.1 miles; isn't that correct, referring to this third page of the application?

A. I don't follow you there—yes. I see it, No. 17; [fol. 1617] correct.

Q. And there is another branch of your bank also about 4½ miles away; isn't that true?

A. That's right.

Q. How far is the Conshohocken branch of your bank from the Girard branch which is numbered 17 in this application?

A. (No response.)

Q. Well, that's probably an impossible calculation.

A. I don't know.

The Court: North and southeast and add 4 miles in each direction, and then you have it.

The Witness: Thank you, sir.

By Mr. Reycraft:

Q. What type of business originates in the Ardmore branch, Mr. Worstall?

A. The type of business that originates there would be checking accounts and savings accounts. There would be time-credit loans in the way of personal loans and other types of loans.

Q. What is the focal point in the Ardmore area?

A. We think Suburban Square is, where our branch is.

Q. When did you move out there?

A. October 2, 1957.

Q. What was in that area before you moved out there?

[fol. 1618] The building was built for us. There was a square there, a shopping center, which I think was one of the early shopping centers in this area. It possibly has been there 25 to 30 years.

Q. Did your bank have existing business in that area when you moved out there?

A. Yes. We did.

Q. Do you know what kind of business you had out there then?

A. Well, I can tell you this—at the time we opened the branch we sent letters to all of our depositors and asked them if they would like to use the branch, and we had over 2,000 replies.

Q. So that you assume that you had about that much business, at least, in the area?

A. Individual accounts would be along that area, yes.

Q. Now referring to page 16 of the application, there is a list of stores in Suburban Square.

Are these stores representative of the type of banking business which your bank does through this office?

A. Yes.

I wish I could say they are all depositors of ours; but they are not.

Q. You are doing your best, however, I take it?

[fol. 1619] A. Indeed, we are.

Q. Now, the application refers at page 21 to the type of customers that you have in the area who will be served by the branch.

Will you tell us whether you are familiar with any of those customers?

A. You are speaking of the Commonwealth Title Company, yes; Horn & Hardart, yes; Ford Motor Company, yes; Pep Boys, yes; Public Finance Service, yes; Philadelphia Electric, yes; Charles S. Rockey, yes; Strawbridge & Clothier, yes; Wanamaker's, yes.

Q. Now, Mr. Worstall, referring to page 22 of the application, what was the estimate which was made with reference to the possibility of deposits and loans that might originate from this branch?

A. Our estimate at that time called for deposits of $2,000,000 after one year, and loans of $1,000,000; and after three years of operation $4,000,000 to $6,000,000 in deposits, and $3½ million to $4½ million of loans.

Q. And what has actually happened out there; do you know?

A. Well, I have given you the figures as roughly as I can. I think I should explain, however, that we did not transfer any accounts from the main office to that office. This is all brand-new business out there.

[fol. 1620] Q. So that any existing business which is located in that area which is being serviced by your downtown office continues to be serviced by your downtown office?

A. Continues to be, although a lot of the people go into the Ardmore branch for service.

Q. But you maintain the account at your downtown office; is that right?

A. That's right; where it was originally housed.

Q. Now let me ask you, Mr. Worstall, whether you have any way of knowing the loans which originate in the branch office.

A. Yes. I get reports from the comptroller, our comptroller.

Q. Do his reports show you the loans with respect to each branch?

A. Oh, yes.

Q. And how often do you get these reports?

A. Quarterly.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 86 a letter dated July 15, 1955, from Mr. Frederick A. Potts to the Hon. L. A. Jennings, Deputy Comptroller of the Currency; and as Government's Exhibit No. 87, a letter, undated, from Robert L. Myers, Jr. to Mr. Geoffrey S. Smith.

[fol. 1621] (Letter dated July 5, 1955, from Frederick A. Potts to Hon. L. A. Jennings was marked Exhibit No. G-86 for identification.)

(Undated letter from Robert L. Myers to Geoffrey S. Smith was marked Exhibit No. G-87 for identification.)

Mr. Reycraft: I wonder if you can tell me, Mr. Littleton, Government's Exhibit No. 87 is a copy of a letter from Mr. Myers to Mr. Smith, which I believe we got from the Philadelphia National Bank; is this not so?

Mr. Littleton: I don't think so.

Mr. Reycraft: All right; it came from the Girard?

Will you mark for identification as Government's Exhibit No. 88 an application entitled "Information for Examiner in Connection with Proposed Branch of the Philadelphia National Bank at 69th Street, Delaware County, Pennsylvania."

(30-page document entitled "Information for Examiner in Connection with Proposed Branch of the Philadelphia National Bank at 69th Street, Delaware County, Pennsylvania," was marked Exhibit No. G-88 for identification.)

Mr. Littleton: Excuse me. Have we left Ardmore?

[fol. 1622] Mr. Reycraft: Yes. Do you wish to examine on it?

Mr. Littleton: I was just wondering, if Your Honor please, whether it would make for a clearer record if I were allowed to ask questions as to each one of these when Mr. Reycraft finishes. I can wait until it is all done and then go over it.

Mr. Reycraft: Either way is agreeable with me, Your Honor.

The Court: It might make for better continuity if we

cleared it up so we won't have to go back piecemeal, if the Government has no objection.

Mr. Reyeraft: I don't object, Your Honor.

The Court: All right.

Suppose you proceed, then, Mr. Littleton.

Cross-examination.

By Mr. Littleton:

Q. Mr. Worstall, at the time that you made this application and opened the branch, what other commercial bank or banks were in the area; and tell us where, if you can.

A. The First Pennsylvania Company was in the area, across the railroad track from where we wanted to locate, I would say about 200 yards away.

Q. On Lancaster Pike?

[fol. 1623] A. On Lancaster Pike.

Q. It has been there for——

A. I would say it's been there since about 1930.

Q. And are there any mutual savings funds in the area?

A. Yes. The Philadelphia Saving Fund Society has a branch that has operated within one square of our office.

Q. And it has recently built another building right next to the station?

A. Indeed, it has.

Q. Any savings and loans, so far as you know?

A. Yes, yes. There is a Lower Merion Federal Savings & Loan Association on Lancaster Pike, which is a matter of 300 yards from our office, I would guess.

Q. Now, this was a new branch established by you and was not the result of a merger with any local bank; isn't that correct?

A. Right, right.

Q. Did you, nevertheless, create or have created an advisory board for this bank, for this branch?

A. Yes. We did.

Q. Tell us about that.

A. We felt it was important for us to become known in the area, in the community. We wanted to take on a community life.

[fol. 1624] We selected six of the outstanding (we think the outstanding) men of the Ardmore area to come into

our advisory committee. They have been very active. They meet monthly and are very helpful.

Q. Can you tell us the names and occupations of some of them?

A. (No response.)

Q. George Craig is one of them, is he not?

A. Yes. George Craig is president of Suburban Square.

Walter Irwin is the head man of the Philadelphia Electric Company.

Q. In the Ardmore office?

A. That's right.

J. Walton St. Clair is president of the Hajoca Corporation in Suburban Square.

Q. Well, that's enough.

Let me ask you——

All right. Go ahead. Give us the rest of them.

A. I have the year-end statement here. May I refer to it?

Q. Certainly.

A. Just to refresh my memory.

Raymond P. Scott, who is an outstanding automobile dealer in Ardmore.

Frank H. Wilson, a renowned builder.

[fol. 1625] James B. Merrick is a druggist.

Q. In Ardmore?

A. In Ardmore.

Q. And you said George Craig; who was the first one you named, was head of——

A. Suburban Square.

Q. What is Suburban Square?

A. Suburban Squpare is a shopping center where we are located, and it was one of the original shopping centers in this area.

Q. And it is the area in which, or the square or center in which a number of these shops who are your customers are located, is it not?

A. Correct, correct. Maybe—my guess would be maybe 40 stores; I don't know.

Q. Including Strawbridge & Clothier?

A. Yes.

Q. Who is the head of this branch at the present time?

A. J. Carleton Holtby, a man who lives in the area and

came to us shortly after graduating from the University of Pennsylvania and went through our training course, was trained in branch operations and branch procedure and in loans; and he has been head of the office since it was opened.

Q. What is his loaning authority?

A. $25,000.

[fol. 1626] Q. Unsecured?

A. Unsecured.

Q. How about secured?

A. We don't put any limit on the secured amount. If we put a limit on it, it means that they can't go over that. If there is no amount mentioned, secured, they can make any reasonable amount they want upon adequate collateral.

Q. And any loans that are greater than $25,000, how does Mr. Holtby handle those?

A. Well, he will usually call me.

[fol. 1627] Q. His lending authority is pretty much a general authority so far as the type of loans is concerned?

A. Yes, he can make any type of loan on that $25,000.

Q. Loan on statement, open credit?

A. That would be an unsecured credit, which he is authorized to make.

Q. Personal loans?

A. Personal loans he could make.

Q. Automobile financing?

A. Yes, any type.

Q. What is the method followed if there is a loan application for greater than $25,000, and I am thinking more particularly about the time element involved.

A. Well, he will handle the entire details. He will call upon the customer. He will review his place of business, review his financial statements, make his recommendation, and the time is never more than one to three days.

Q. And clearance with you or some other officer of the main office, how is that effected?

A. Either by telephone or he will come in if it is very important and very large.

Mr. Littleton: That is all. Thank you.

The Court: It is mid afternoon. We will——

[fol. 1628] (A 10-minute recess was taken at 3:00 o'clock P.M.)

Mr. Littleton: May I ask just one or two more questions about Ardmore.

By Mr. Littleton:

Q. Mr. Worstall, Mr. Reycraft asked you about deposits and loans, so far as you were able to give them, at the Ardmore branch at the present ime, and you guessed 3½ million of deposits and you guessed $1,800,000 of loans. Now I direct your attention to the Exhibit G-57, which is the application of the two banks for merger, Page 64. Will you tell us from that what the estimated IPC deposits and loans for the Ardmore branch service area were at the time of the application. You will find it is No. 256 on that list.

A. The IPC deposits in the application were $3,100,000. The loans were $2,087,000.

Q. Thank you. Now will you tell us whether there is any limit on the aggregate of loans which can be made from the Ardmore office or by the Ardmore office.

A. No, sir.

Q. Will you look at the exhibit which is the application for the Ardmore branch.

The Court: G-85.

[fol. 1629] Q. G-85, Page 21, and look at Paragraph 13, which is an answer to the question, "To what extent will the proposed branch enable the bank to serve more efficiently and thereby protect existing business?"

Do you see that?

A. Yes.

Q. You say in there, "We do know that we have a number of customers with headquarters in Philadelphia or other cities who have established branches in Ardmore and vicinity. Some of the more important of these are:"

Commonwealth Title. It says the average deposit balance is $234,500. What was their loans on August 18, 1955?

A. Nothing.

Q. Horn and Hardart. The average deposit balance, $79,800. What was their loans?

A. Zero.

Q. Ford Motor Company had deposits of $1,333,900. What is their loans?

A. Zero.

Q. Will you read us the rest of those?

A. The Pep Boys, average deposits, $312,500, loans $300,-
[fol. 1630] 000.

Public Finance Service, deposits $173,400, loans $750,-
000.

Philadelphia Electric, deposits $18,801,000, no loans.

Charles S. Rockey, deposits $6,400, no loans.

Strawbridge and Clothier, deposits $2,446,000, loans $2,-
664,000.

Wanamakers, deposits $761,000, no loans.

Total deposits $24,150,000. Loans, $3,714,000.

Q. The excess credit or the excess deposit balance over loans is available for use in making loans to other businesses and industries around Philadelphia?

A. They would not be restricted to only these.

Q. I say, the excess deposits will be available to the bank to lend to other businesses and industries and individuals around Philadelphia?

A. In any part of our system.

Q. In any part of your system. Thank you very much.

Direct examination.

By Mr. Reycraft:

Q. I understand correctly, do I not, Mr. Worstall, that the excess from this branch might be loaned anywhere in
[fol. 1631] the city or anywhere in the four-county area; is that right?

A. It can be loaned anywhere. It is a pot.

Q. So it could be loaned anywhere either in Philadelphia, in the four-county area, or outside the state somewhere?

A. It works in every branch and in the main office in the same way.

Q. The excess deposits go into the central account and can be used and loaned anywhere; is that correct?

A. It is a central pot that can be loaned any place, yes.

Q. Mr. Worstall, referring to Government's Exhibit No. 88, are you familiar with the 69th Street branch of your bank?

A. Yes.

Q. Will you tell me the general geographic area which is included in the bank service area?

A. Yes. The Upper Darby office is located at about 69th Street, which has for a number of years been a very fine shopping center. 69th Street is a terminus of the PTC that runs into Philadelphia, the subway and the elevated. It is also the terminus of many bus lines coming into the terminal bringing passengers that then transfer to the PTC subway and elevated. Our area here would extend very [fol. 1632] little toward Philadelphia but extend more out along the Weschester Pike and maybe a little bit west toward the Fernwood area in there, so my guess would be it would run possibly five miles in one direction, maybe a half mile in the other, and a half mile on the other side, sort of a triangle.

Q. Can you describe the type of banking business which originates in that area?

A. Yes. A lot of it would come, the business end would come from stores in the area. There wouldn't be too much commercial business. There would be a lot of individual business. Some commercial, but mostly individual and shopping area business, I would think.

Q. How close is the nearest branch of the Girard to that office?

A. Next door.

Q. And where is the next nearest branch of the Girard?

A. Where are we? What page?

Q. Page 2 has some information about that.

A. The next closest branch of Girard would be Drexel Hill, which would be 2.9 miles away.

Q. And is there another branch of the Girard nearby?

A. Manoa, 3.8 miles away.

Q. Can you tell me who was at this location first, your- [fol. 1633] selves or Girard?

A. The Upper Darby National Bank was here first, and Girard merged with the Upper Darby or vice versa.

Q. Prior to your moving into the area?

A. Then we opened our office, yes.

By the Court:

Q. How about the branch at 63rd below Girard. Wouldn't that be nearer in miles than Drexel Hill?

A. Yes, sir, it would, in miles. That isn't our trading area down in that area, though.

By Mr. Reycraft:

Q. How far away would that be?

A. A mile and a half. No more than that, I wouldn't think.

The Court: A mile and a half to two miles. You can't cut Cobbs Creek, so you have to come down Market and up 63rd.

By Mr. Reycraft:

Q. Mr. Worstall, can you tell me the approximate amount of business that your bank had in the area when you went out there?

A. Will you help me out on the page number on that.

Q. I am not sure it is here.

A. I am not either.

[fol. 1634] Q. Yes, on Page 12e.

A. The application says that 2300 accounts, with deposits of $4,400,000, originate in the general area serviced by the proposed branch.

Q. And the loans on Page 14 in the amount of $2,700,000?

A. Yes, sir.

Q. Mr. Worstall, would you read the paragraph on Page 12e following the one from which you just quoted.

A. "In view of the business which the Bank now enjoys in the area of the proposed branch, it is the position of this Bank that it is necessary for it to establish the proposed branch in order to compete fairly. This is particularly true in view of the proposed merger between Upper Darby National Bank and Girard Trust Corn Exchange Bank. Following this merger, the 69th Street Shopping Center will be serviced solely by our two principal Philadelphia competitors (i.e., The First Pennsylvania Banking and Trust Company in addition to the Girard Trust Corn Exchange Bank)."

Q. And are those two banks your principal competitors?

A. In that area, yes.

Q. In any area?

A. Do I have to go beyond the application?

Q. If you know the answer, sir, I think you should an-
[fol. 1635] swer the question.

A. I would think we compete fairly with those two banks and others in Philadelphia. I would think they would be main competitors with us.

Q. And are they the two principal Philadelphia competitors? That is what the application says.

A. The application has to be right.

Q. And you agree with it?

A. Yes.

Q. On Page 12c at the bottow, reference is made to the lack of benefits in the 69th Street shopping area resulting from the entrance of the national bank.

A. I am sorry. 12c?

Q. 12c at the bottom of the page.

A. "Absence of Benefits from National Banking Institution"?

Q. Yes, sir. Can you tell me from your knowledge what the relative benefits are from a national bank and a state bank?

A. Actually, we do a comparable general commercial business. The national banks have trust powers as trust companies do have. I do not think there is any big advantage from the local viewpoint, from a lending viewpoint now. There were advantages on one side or the other, but they have been pretty well equalized. Of course, [fol. 1636] we think that the name "national" has a great advantage.

Q. You think it has good advertising value?

A. We think so.

Q. Can you think of any other advantages?

A. I think I have covered it.

Q. Now, at the top of Page 13 the question appears in the application, "What competitive effect is the proposed branch expected to create?"

Would you read that paragraph for us.

A. "What competitive effect is the proposed branch expected to create?

The proposed branch would offer strong competition to the two banks in the immediate service area. This competition would be against branches of large Philadelphia commercial State banks (First Pennsylvania Company and

Girard Trust Corn Exchange (a) with total assets of $1,099,209,672 and $645,890,936 respectively.) This competitive situation would be to the benefit of the public served. We believe that the area has sufficient population and retail sales to warrant the establishment of additional banking facilities."

Q. Mr. Worstall, if this merger should become effective, [fol. 1637] was it your bank's intention, to your knowledge, to close one of these two offices?

A. Yes. We had felt that our office is a very small one. It is only 17 feet wide by about 60 feet deep. It only has about four tellers cages and we would feel that we would do well if we would close that office.

Q. You didn't think it was a very good office anyway?

A. Well, if we had to write this over again today (indicating), in looking ahead, without having had our experience, maybe we would write the same thing, but our experience hasn't justified it.

Q. Do you think that might have been the result of competition out there?

A. No, I don't think the area justified the expense that we put into it. I think the area didn't go forward the way we had anticipated. There were great big plants at that time for the terminal building to be torn down and for a big shopping center to be placed across the street from us. They were going to spend tens of millions of dolllars on it, and that plan fell through. I think possibly we might have located elsewhere had we thought that that plan was not going to materialize.

Q. You made some fairly optimistic projections as to branch loans and deposits, did you not, on Page 15?

[fol. 1638] A. I am afraid so.

Q. What were they, Mr. Worstall?

A. Projected branch loans and deposits, after one year of operations, deposits of $5,500,000 and loans of from $3 million to $3,500,000, and after three years of operation, deposits $8,500,000 to $9,500,000 and loans from $5 million to $6 million.

Q. It hasn't worked out quite that way, I take it?

A. No, sir, it has not.

Q. Is this the office at 6912 Market Street in Upper Darby?

A. That sounds like the right address to me.

Q. The IPC deposits as indicated in the application are $780,000 and the area loans, $311,000. Does that sound right?

A. I assume that was right at the time of filing the application, yes.

Mr. Littleton: That is No. 251 on the list.

The Witness: 251, deposits IPC, that is, individual, partnership and corporation deposits, $780,000, loans of $311,000.

By Mr. Reycraft:

[fol. 1639] Q. And that is the same office that we have been discussing?

A. That is the same office.

Q. Now, Mr. Worstall, referring to Page 16 of the same application, concerning the 69th Street branch, can you tell me what importance you attributed at the time to convenience of service.

A. First of all, we thought the location was good. We still think it is good. We thought a lot of our customers maybe would be using our service in that area, and a number of them are. I guess that's about all I can say.

Q. You did think, however, did you not, that it was quite important to have a convenient location to protect and retain existing business?

A. That's right.

Q. And this was a particularly important factor at the time in your decision to locate the branch at 69th Street?

A. That is correct.

Q. Would you read the last paragraph on that page.

A. "The second factor which the Bank must consider in viewing its relative position in the 69th Street area, is the recently announced proposed merger of the Upper [fol. 1640] Darby National Bank into the Girard Trust Corn Exchange Bank. This merger will undoubtedly reduce our competitive ability in the area in that it will add a second bank in the area capable of offering its depositors the convenience of both downtown offices and local offices."

Q. Was it your experience following that merger that it reduced your competitive ability in the area?

A. Was it our experience that following their merger it reduced our competitive position?

Q. Yes.

A. I think their merger took place before we were there.

Q. Well, I suggest that the paragraph that you read indicates that someone thought that the recently announced proposed merger of the Upper Darby National Bank and the Girard will undoubtedly reduce your competitive ability. What I am asking is whether this forecast proved to be accurate.

A. I am sorry, I still don't follow, because our application was filed before the merger took place, but our bank did not open until after the merger took place, so I don't know anything comparable there.

Mr. Reycraft: All right.

[fol. 1641] Q. The Liberty-Real Estate has come out there since, has it not?

A. Yes. They opened an office on 69th Street about a hundred yards from our office.

I would say they opened there maybe six months after we opened.

Q. And one of the savings funds is out there, is it not?

A. The Western Savings Fund Society is almost next door to us.

Q. And there are a number of finance company and small-loan companies in the area, and Mr. Beadle, I think, gave us the list of them this morning?

A. Yes. He did.

Q. Your anticipations were not realized out here, were they?

A. I am sorry to say they were not.

Q. Do I understand that part of the reason was that some of the Upper Darby business didn't shift to this office, as you thought it might—some of the business?

A. No. I think the big reason, Mr. Littleton, was the fact that the area didn't develop the way we had anticipated it would. We thought it would grow fast with this new shopping center coming in there and be a great advantage to us; and it didn't come along.

[fol. 1642] Q. Would you say the area is over-banked at the present time, in your opinion?

A. There are four banks there now, commercial banks there now, and there is one saving fund.

I think I'd rather answer your question and say that if one did not remain there it wouldn't affect the area to any extent.

Q. That is, the service to the area?

A. That's right.

Mr. Littleton: That's all.

Mr. Price: No questions.

Mr. Reycraft: Will you mark for identification as Government's Exhibit 89 an 8-page document with attachments, headed "Information for Examiner in Connection with Proposed Branch of the Philadelphia National Bank Roosevelt Boulevard Office."

(10-page document entitled "Information for Examiner in Connection with Proposed Branch of the Philadelphia National Bank Roosevelt Boulevard Office," was marked Exhibit G-89 for identification.)

Direct examination. (Resumed)

By Mr. Reycraft:

Q. Mr. Worstall, is the Roosevelt Boulevard office open yet?

A. No, sir. We think it will open at the end of this month.

[fol. 1643] Q. When was this application made?

A. There is no date on it?

Q. Does January 19, 1959, sound familiar?

Mr. Reycraft: Let me mark this as Government's Exhibit No. 90.

The Court: January 19, 1959.

The Witness: That sounds about right, yes.

Mr. Reycraft: This is Treasury Department Form 1928, a one-page document entitled "Application of the Philadelphia National Bank for Permission to Establish a Branch."

(Treasury Department Form 1928, "Application of the Philadelphia National Bank for Permission to Establish a Branch," was marked Exhibit G-90 for identification).

By Mr. Reycraft:

Q. Do you know why, Mr. Worstall, such a long-time interval between the application date and the opening of the branch?

A. Because it took a long time between the application and the opening?

Q. Do you know the reason for that?

A. Yes, I do.

Q. What is it?

A. I am sorry to say we had builder difficulty.

Q. Can you tell me what the area is which this office is [fol. 1644] expected to serve?

A. Yes. It's residential, fast-growing residential area.

Q. Can you describe it in geographic terms?

A. Roosevelt Boulevard is a very wide thoroughfare used heavily for traffic, automobile traffic. Pennypack circle is a traffic circle and our branch would be located right at that circle, attached to a Food Fair store.

Q. Would you indicate the approximate mileage or circumference or radius served by the branch?

A. I would guess maybe a mile radius would do it.

Q. Now, Mr. Worstall, at page 2, under paragraph (7), you are asked to list the names and addresses of competitor banks and their branches.

Does the Girard Bank appear on that list?

A. I see them down at No. 7, 1.6 miles from our proposed branch.

Q. Do you see them again down a little further?

A. Yes, No. 1, 2.1 miles.

Q. Do you see them again?

A. No. 12, 2.9 miles.

Q. Can you tell me, sir, the general type of banking business which you expect to get in that area?

A. Yes. We would expect to get individual-account business, personal-loan business, safe-deposit boxes. [fol. 1645] I think that would cover it largely. It will be individual business, we think.

We don't think there will be much industrial or commercial, although there is industry and commercial on out the Boulevard that we may be able to serve some of our customers from this office.

Q. You refer at page 4 in the application to the fact that many important companies have moved to this area in the last few years and you refer to the capital expenditures made by National Biscuit Company, Yale & Towne, The Budd Company, and Crown Cork & Seal.

A. Yes.

Q. You would hope to get some of their business?

A. We would certainly try for it. We would hope this location would help us.

Q. Can you tell me, sir, referring to page 6, what the existing banking business is that you have in the area and what you expect to get one year and three years after it begins?

A. Business originating in the general service area of the proposed branch, we have 1157 individuals with deposits of $5,486,000; and 45 individual loans in the amount of $918,000.

Projected branch loans and deposits, after one year of operation, deposits $6,500,000; loans $1,500,000.

[fol. 1646] After three years of operation, deposits of $8,000,000 and loans of $3,000,000.

Q. Now, do you know, sir, generally, where the existing business in the area is being served from now within your bank system?

A. I would guess, yes, that it would be our northeast offices, possibly Erie Avenue, Allegheny.

Q. How far away is that?

A. Is it shown in the application here? I haven't seen it here.

Q. I don't believe it is.

A. Two or three miles.

It must be farther than that because it doesn't show here on the names of the banks listed, so it must be over three miles.

Q. And isn't it true that one of the reasons for establishing this branch is to service that business more efficiently?

A. Yes.

Q. And conveniently for the customers?

A. Yes.

By the Court:

Q. Is that at Allegheny and Kensington?
A. Yes.
Q. Doesn't that show on page 2?

[fol. 1647] By Mr. Reycraft:

Q. Exhibit B, which is the last page, indicates——

The Court: Just a moment, just a moment.
The Witness: I am trying to find this now. Just a minute. Let's see.
The Court: At the top of page 2.
The Witness: Allegheny and Kensington, 5½ miles, it shows; Erie and Castor, 4½ miles.
So, our nearest branch would be 4½ miles.

By Mr. Reycraft:

Q. And the business in that area was being served either from that branch or by the head office, would you say?
A. Yes. I would think largely by those branches.
Q. All right.
Exhibit B is a list of the commercial accounts which you are going to try to get in that area; is that right?
A. That's right.
Q. There are about 40 on that list, aren't there?
A. I will count them.
Q. No. You don't need to count them——
A. All right.
Q. —if you will agree with me that it is about 40.
A. I will agree with you.
Q. Just one more question.
[fol. 1648] And about 15 of those at that time maintained an account with the Philadelphia National Bank?
A. Correct.

Mr. Reycraft: All right.

Cross-examination. (Resumed)

By Mr. Littleton:

Q. Mr. Worstall, will you address yourself to page 2 of G-90?

A. Of G-89?

Q. G-89, excuse me; and in particular with respect to the list which you have placed under the question (7) or the heading (7). Now, that heading or question is as follows:

> "A list of the names and addresses of competitor banks and their branches within a five mile radius (two or three mile radius in large cities) showing deposit and loan totals for each and the distance and direction of each from the location of the proposed branch. Any geographical barriers should be noted."

Is that your language or is that the language of the Comptroller's application form?

A. That is the application as we received it, his wording.

Q. It is the question on the application form, is it?

A. Correct.

[fol. 1649] Q. Supplied by the Comptroller of the Currency?

A. Correct.

Q. And you were responding to that question when you made this list of 21 financial institutions; is that correct?

A. We were complying with the request, yes.

Q. And referring to No. 7 there, to which Mr. Reycraft directed your attention, Girard Corn, 4010 Cottman Avenue, and then some figures, 1.6 miles southeast; by including that there, did you or did you not intend to indicate that you thought that branch would be in competition with your branch?

A. Our service area is a one-mile radius.

Q. And you didn't, by including this in the list, indicate or intend to indicate that it would be in competition with your proposed branch?

A. We were merely complying with the request.

Q. And that, of course, is true with regard to Item 9, Girard Corn, and Item 13, Girard Corn, which are at greater distances?

A. Correct.

Q. That is true?

A. Correct.

Q. Have you selected the person who is to be manager yet for this particular branch?

[fol. 1650] A. (No response.)

Q. If you don't know, say so.

A. Yes, yes.

Q. Who is it?

A. I had to think a minute—Jack Adams. He has been a man in our northeast offices. He has been with the bank for, oh, I can remember when he started in the Credit Department maybe seventeen—eighteen years ago, and he has been in our northeast offices for possibly five or six years.

Q. And this is in the northeast area of the city, is it?

A. That's right.

Q. And that is one of the reasons for selecting him?

A. (No response.)

Q. Incidentally, is that a general policy with you, with your branches?

A. We try our best to put a local man in a local job.

Q. Do you know what lending authority he is going to have?

A. I don't know yet. It hasn't been established.

Mr. Littleton: That's all I have. Thank you.

Mr. Reycraft: Mr. Price?

Mr. Price: No questions.

Direct examination. (Resumed)

By Mr. Reycraft:

Q. Mr. Worstall, you are satisfied that the answer as set [fols. 1651-1654] forth in this application to Question 7 is accurate, aren't you?

A. I would hope it was accurately prepared.

Q. Pardon me?

A. I would hope it was accurately prepared.

The Court: Are you starting on Park Ridge now?

Mr. Reycraft: Yes, sir.

The Court: It is five minutes to 4. We couldn't possibly finish it in five minutes, so let's hold that until tomorrow.

(Adjourned at 3:55 o'clock P. M. until 10:00 o'clock A. M. on Wednesday, June 14, 1961.)

[fols. 1655-1656] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

EIGHTH DAY

Philadelphia, Pa., June 14, 1961

Before Hon. Thomas J. Clary, J.

* * * * * * *

[fol. 1657] E. LAWRENCE WORSTALL, resumed.

Direct examination (cont'd.)

Mr. Reycraft: Will you mark as Government's Exhibit No. 91 a 13-page document with attachments, headed "Information For Examiner in Connection with Proposed Branch of the Philadelphia National Bank in Park Ridge Shopping Center."

(13-page document headed "Information for Examiner in Connection With Proposed Branch of the Philadelphia National Bank in Park Ridge Shopping Center" was marked Exhibit G-91 for identification.)

By Mr. Reycraft:

Q. Mr. Worstall, referring to Government's Exhibit No. 91, can you tell me the geographic area from which this branch was expected to draw its banking business?

A. Yes. The branch is located about four miles due west of our Norristown branch on Ridge Pike. The area is largely a shopping area and residential, although about a mile and a half due south of our office at Park Ridge there is developing a Valley Forge Industrial Park, and we do hope to get some business from that industrial park. I would say that the area would be a radius of maybe two

to three miles, maybe a little bit more, irregular here and [fol. 1658] there. It would extend part way into Norristown and extend pretty well into Collegeville, which is about four miles west.

Q. Would you expect to get commercial business from that area?

A. We would hope the industrial park would give us some commercial business, yes.

Q. And at Page 7 of the application a list is set forth, is it not, of some of the companies whose industrial and commercial business you would expect to get from this branch?

A. That is right.

Q. And that includes the Superior Tube Company and the B. F. Goodrich Company and others, does it not?

A. Correct.

Q. Did it appear, Mr. Worstall, at the time of the application that the shopping center area was an important factor for a bank business?

A. The shopping center is an important factor in drawing power, yes. There is a large A&P there, a Grant Store, and a number of smaller stores.

Q. And is it your judgment that this would attract a lot of banking business in the area?

[fol. 1659] A. We believe it will attract a lot of individual banking business, yes.

Q. What was your judgment with respect to the public need for the services in the area at the time the application was made?

A. We felt there was need for banking service there. It is four miles from Collegeville. There is a branch of the Peoples Bank possibly a mile and a half, two miles east, but the area itself has not been banked.

Q. Was it your opinion at the time that it was underbanked?

A. I think we felt there was need for a bank there and it would be worthwhile for us to put one there.

Q. I believe there is a reference to the population figure of 13,000 per office and the suggestion that this is underbanked, in your judgment. Would that be accurate?

A. I think the best way to answer that, Mr. Reycraft, is to say that we think the area is a great, fast growing

area that will move ahead very rapidly and that the bank office can be fully justified.

Q. What importance was attributed at this time to the desirability of having a branch convenient to the com-
[fol. 1660] panies you hoped to serve? I believe that there is some information on Page 10 of this application.

A. Where is that on Page 10, so I don't read the whole thing.

Q. Sure. In the second full paragraph it would indicate that the industrial locations will now have local banking services for company and employees at a very short driving distance. The companies that bank with us in Norristown will now have a branch locally to transact more complete banking services.

A. Thank you.

Q. And this was an important factor in the application?

A. Yes, we feel it is important. As a matter of fact, every branch we have we think is very important for our Philadelphia customers who may be doing business in the area of our branches.

Q. What was your judgment at the time with respect to the competitive effect of the proposed bank? Paragraph 11 discusses that.

A. Well, Paragraph 11 does say that it will tend to increase competition, and that is a normal thing. It will increase competition, but we believe that the office can be properly supported in that area.

[fol. 1661] Q. You thought it was necessary, did you not, to have a branch here in order to improve your competitive position in Montgomery County?

A. That is always helpful to us, yes.

Q. And it is always helpful, in order to improve your competitive position, to have a branch conveniently located, is it not?

A. It is vital.

Q. And you concluded also that the competitive situation would be to the benefit of the public?

A. The public is paramount in our minds before we think of any location.

Q. And you think that competition is an important means of bringing these benefits to the public, do you not?

A. I think our services would be about the same in any location regardless of competition.

Q. You don't think, then, that competition is important?

A. In this particular branch you are speaking of now?

Q. Yes, sir.

A. I don't think competition in the area governed our pricing, and so forth, and our advertising in the area, no.

[fol. 1662] Q. Well, you did indicate in this application that the competitive situation in this—I take it to mean the increase in competition resulting from your branch——

A. Yes.

Q. —would be to the benefit of the public served.

A. Well, I guess that is axiomatic.

Q. And you would agree with that, would you not?

A. I think so.

Q. What form does this competition take?

A. In this branch?

Q. Yes.

A. Do you have that paragraph there?

Q. No, I don't have the paragraph. I wonder if you can tell us.

A. Yes. We know that there is a branch of the Peoples Bank about a mile and a half to the east of us. We know that there is an office of the Provident Tradesmens Bank in Sellersville four miles west of us. Norristown itself would be four miles east, and we think maybe that would be too far removed.

Q. Now, how do you compete for banking business? You indicated that you would be in competition with some of these banks.

[fol. 1663] Mr. Littleton: You mean how does he compete at this branch?

Mr. Reycraft: Yes.

A. We offer a full, rounded service, everything we can offer in the way of individual accounts, savings accounts, Christmas Club. We offer personal loans. We offer commercial loans. We can do anything at that branch that we can do at the main office.

Q. Are service charges one way in which you would compete?

A. I can't answer what our service charges are at that office, I am sorry.

Q. Would they be different from the downtown office?

A. I would rather that would come out under your service charge, whatever you are going to do in that, because I really don't know. I don't think there is much change, if any. I am not sure.

Q. You don't have the information?

A. No, I do not have the information on service charges.

Q. Does competition at this branch take the form of interest rate variation, for example?

A. On loans?

[fol. 1664] Q. Yes.

A. I wouldn't have any idea what the other banks charge.

Q. Do you have any knowledge as to whether the branch manager would be expected to have that information?

A. I would assume that he would not have that information.

Q. He would not?

A. He would not have that information.

Q. What is his authority with reference to the variation in the interest rates that he might charge on loans?

A. Well, he can set his own interest rate on loans.

Q. What is the range of authority that he has in setting interest rates on loans?

A. He has his own authority. He can do whatever he wants. Legally he cannot go over 6 per cent on individual loans, except for time credit.

Q. How far below that can he go?

A. Well, the prime rate today is 4½ per cent. We would assume that he would not make anything lower than 4½ per cent.

Q. Mr. Worstall, can you tell me what business your bank had in the area at the time this application was [fol. 1665] made? On Page 11 I believe there is some information on that.

A. Thank you. Yes.

"Business originating in general service area of proposed branch," 799 depositors, $1,703,000; 59 loans, $549,000.

Q. And this would be business which prior to the ap-

plication was being served by another office of your bank?

A. No doubt.

Q. And what were the estimates of the business which would be developed in this area after one year and after three years?

A. After one year, deposits between $2 million and $2,200,000 and loans between $600,000 and $800,000, and after three years deposits $2,700,000 to $3 million dollars and loans $1 million to 1 million 3.

Q. So that with respect to both existing business and projected business, you felt that deposits would substantially exceed the loans that were made in the area; is that correct?

A. Well, these figures show what it is. I don't know whether you call that substantial or not.

Q. Is that more than double in each case? The deposits [fol. 1666] would be more than twice the loans?

A. I don't think that would be a terrible disparity.

Q. I am not saying it is terrible. I am just trying to develop the fact.

A. What do you mean by substantial, then?

Q. I would say twice as much would be substantial.

A. Well, if that's what you mean, it is twice as much.

Mr. Reycraft: All right.

Will you mark as Government's Exhibit No. 92 a one-page document, Treasury Form 1928, which is the formal application for permission to establish the branch at Park Ridge.

(One-page document, Treasury Form 1928, formal application for permission to establish branch at Park Ridge, was marked Exhibit G-92 for identification.)

And will you mark for identification as Government's Exhibit No. 93 a ten-page document, with one attachment, headed "Information For Examiner in Connection With Proposed Branch of the Philadelphia National Bank in Ridley Township, Delaware County, Pennsylvania.

(Ten-page document with one attachment, headed "In-[fol. 1667] formation for Examiner in Connection With Proposed Branch of the Philadelphia National Bank in

Ridley Township, Delaware County, Pennsylvania" was marked Exhibit G-93 for identification.)

The Court: If you are going into that, Mr. Reycraft, can we clean the first one up now?

Cross-examination.

By Mr. Littleton:

Q. Mr. Worstall, when did this branch open? I am now talking about the so-called Park Ridge.

A. In June of last year.

Q. In June of 1960?

A. Yes.

Q. Will you address yourself to G-91, which is the information for the examiner which you submitted, and, in particular, to your answer to his Inquiry No. 13, "To what extent will the proposed branch enable the bank to serve more efficiently and thereby protect existing business?"

Will you tell us what the Philadelphia National Bank represented to the Comptroller with respect to this.

A. Would you give me that page?

[fol. 1668] Q. Page 12.

A. "13. To what extent will the proposed branch enable the bank to serve more efficiently and thereby protect existing business?"

Q. Yes.

A. The answer:

> "The proposed branch will enable us to serve more efficiently the accounts and loans of the bank which originate in the service area, for it is a widely recognized and accepted trend that bank customers are demanding conveniently located facilities. Our present customers must travel considerable distances over congested roads to bank in our Norristown office. These customers will tolerate inconvenience"——

Q. Is "inconvenience" the word?

A. "Inconvenience."

Q. Go ahead.

A. ". . . traffic congestion only so long before they will seek another bank not so difficult to reach. The increasing congestion in Norristown coupled with rapidly growing population and commercial activity in its suburbs, makes [fol. 1669] it particularly important for us to extend our coverage into areas removed from this congestion if we are to properly serve existing customers. Without convenient locations it becomes increasingly difficult to protect and retain existing business."

Q. And you subscribe to those reasons?

A. Yes.

Q. I suppose, because of the fact that you have only been open since the middle of last year, you are not able to say what the results of this branch are at the moment?

A. I think our Comptroller could give you some figures on that.

Q. But not you yourself?

A. I do not have them available, no.

Mr. Littleton: That is all. Thank you.

[fol. 1670] Mr. Reycraft: Will you mark as Government's Exhibit No. 94 a one-page document, Treasury Form 1928, "Application for Permission to Establish a Branch" in Ridley Township.

(Document entitled "Application of the Philadelphia National Bank for Permission to Establish a Branch" in Ridley Township, was marked Exhibit G-94 for identification.)

Direct examination. (Resumed)

By Mr. Reycraft:

Q. Mr. Worstall, when was the application made to establish a branch in Ridley Township?

A. January 19, 1959.

Q. Has that branch opened yet?

A. Yes, sir.

Q. How long has it been operating?

A. December 16th of 1960.

Q. Now, can you tell me the geographic area from which that bank office draws its banking business?

A. Yes.

Mr. Littleton: When you are saying this, you mean the primary area from which it draws its business, as I understand it?

[fol. 1671] The Witness: I think that's what you mean, is it not?

Mr. Reycraft: That is what I intended to convey, yes.

The Witness: Yes.

MacDade Boulevard is a very highly-developed shopping area. The A & P, the American Store, the Food Fair, the Penn Fruit are along that area.

The residential area is growing at a very rapid rate. I think it's as rapid, if not more rapid than, any other area in Delaware County.

Our service area would run in an irregular fashion, possibly two to three miles in radius. It would go south to the Delaware River and north to the Baltimore Pike, east on MacDade Boulevard about two miles, and west possibly two miles.

By Mr. Reycraft:

Q. Now, the area you have described is the area from which you would draw your business principally; is that correct?

A. We think so.

Q. Now, you would draw business from perhaps beyond that area in some cases, would you not?

A. We would hope to be able to, but I wouldn't want to be sure of that.

[fol. 1672] Q. Mr. Worstall, what type of banking business originates in the area that you have described?

A. We think it will be largely shopping, store centers, and residential.

We are also on a very fine highway connecting from the Industrial Highway on through to Swarthmore and so forth, and a lot of individuals that work along the Industrial Highway at Westinghouse, Scott Paper, use Kedron Avenue as a way to go home and a way to go to work; and we would hope that a good many of them would be served by our office, also.

Q. Now, can you tell me why at this time you thought there was a public need for that banking office?

A. We think there has been a public need for that office in that area for some little time.

Q. For what reasons?

A. Growing area, very rapid growth.

Q. The people in the area needed convenient banking services; is that it?

A. We were the only bank in Ridley Township at the time that we applied.

Q. And is this an area which you considered underbanked before you went in there?

A. It was definitely underbanked.

Q. Do you know what the population figures were for [fol. 1673] the office?

A. The population figures for Ridley Township, which is the township in which we are located—in 1950 the census was 17,212 people; and it was estimated in 1957 to be 31,490, and I think that is a substantial increase.

Q. Now, at page 8, Mr. Worstall, the application refers to the competitive effects of the proposed branch.

Would you read that paragraph for us, please.

A. What competitive effect is the proposed branch expected to create?

The answer:

> "The proposed branch would offer strong competition to the banks in the service area. This competition, for the most part, would be against branches of Philadelphia commercial state banks—Broad Street Trust Company, Fidelity-Philadelphia Trust Company, Provident Tradesmens Bank & Trust Company. There is only one branch of a national bank, the Delaware County National Bank in the area, and it is located at the egress southern boundary."

The Court: Extreme.

Mr. Reveraft: That is "extreme."

[fol. 1674] The Witness: I am sorry; it is blurred; it is "extreme."

By Mr. Reveraft:

Q. Would you continue with that?

A. "This competitive situation would be to the benefit of the public served. We believe that the area has suf-

ficient population and retail sales to warrant the establishment of additional banking facilities."

Q. Now, the three banks referred to in the earlier paragraph, are they each state banks?

A. The Broad Street Trust Company, Fidelity-Philadelphia Trust Company, Tradesmens Bank & Trust Company—state banks, yes.

Q. And the Delaware County National is, of course, a national bank?

A. Yes.

Q. What is the relevance of the fact that there is only one branch of a national bank in the area?

A. I don't think there is any relevance to that at all.

Q. What benefit did you think would result to the public from the increased competition in the area which is referred to in the next paragraph?

A. Are you meaning number 12?

Q. I am referring to the second paragraph in paragraph 11.

A. This competitive situation.

[fol. 1675] Q. Yes.

A. Would be to the benefit of the public served?

Well, fair competition is always good.

Q. Any particular reason for that?

A. I think not.

Q. Do you think perhaps your bank and the other banks would be more alert to provide services if they had competition?

A. I think it's a normal growth to improve competition and improve services all the time.

Q. And you think it is normal that when you have competition you will be alert to improve services?

A. I think in an area of this kind, it might be.

Q. Is there any area where it wouldn't be?

A. Well, I don't know that I am in a position to exactly answer that.

By the Court:

Q. How about 69th Street?

A. We covered 69th Street yesterday and we pointed out that our office has not been resulting satisfactorily to us since it was established.

There is adequate banking there, even though we would not be there.

By Mr. Reycraft:

Q. Mr. Worstall, referring to page 8 of the information [fol. 1676] for the Examiner which I have called an application from time to time, but which I guess strictly speaking is not, would you tell us what the existing business was in the area at the time the application in this information was furnished?

A. The business originating in the general service area of proposed branch?

Q. Yes.

A. At the present time, 945 depositors for deposit amount of $1,794,000; loans, 139 loans for an amount of $627,000.

Q. And your projected business?

A. The projected branch loans and deposits after one year, deposits, $2½ million to $3 million; loans, $1½ million to $2 million; and after three years, $4 million deposits to $4½ million; and loans, $2½ million to $3 million.

Q. And in each case the ratio of deposits to loans runs a little less than 2 to 1; isn't that correct?

A. After the three-year period, it's more than that—I am sorry, loans are—will you restate your question? I am afraid I misunderstood it.

Q. Yes. The ratio of deposits to loans runs a little less than 2 to 1?

A. That is right. We usually word it the other way and I was confused; I am sorry.

Q. All right.

[fol. 1677] Now, was one of the reasons that this branch was opened in this particular area to protect the existing business?

A. We always think it helps to protect existing business, yes.

Q. And this means, does it not, protected from competition?

A. It means that we are better able to serve our customer and we would hope we would hold him.

Q. You are better able to compete by having a branch in the area?

A. We are better able to serve.

Q. And to compete?

A. I don't know what our competition would be. If our competition is there, yes.

Q. You don't deny that you are competing for this business, do you?

A. We are always after business.

Q. And you are competing for it, aren't you?

A. We are not cutting rates.

Q. Well, how do you compete for it?

A. We offer good service.

Q. In other words, the competition takes the form of offering services rather than any sort of price or rate competition?

[fol. 1678] A. Well, we think convenience is number one.

Q. You think that is most important?

A. Service might be number two; of course, safety would come above everything.

Q. Safety of the deposits?

A. That's right.

Q. And where would you rate the competition with reference to your interest rates and service charges?

A. Again, I say I don't think we know what the service charges or what the interest rates are of our competing banks. I don't believe we do in that particular area, if that's what you mean.

Q. You don't have any knowledge, at least, of the service charges or the interest rates?

A. No, sir.

Q. One of the modes of competition is convenience, isn't it, convenience of service?

A. Very much so.

Mr. Reycraft: Will you mark as Government's Exhibit 95 a four-page document with the heading "Retail Division Proposed Ridley Regional Office."

(Four-page document entitled "Retail Division Proposed Ridley Regional Office" was marked Exhibit G-95 for identification.)

[fol. 1679] By Mr. Reycraft:

Q. Mr. Worstall, can you tell me what Government's Exhibit 95 is?

A. No response.)

Q. What I mean to suggest is, is it an internal memorandum in your bank?

A. Yes, it looks to me as though it was prepared by C. Donald Riddle on November 21, 1958, and it looks to me like an outline of his thinking in regard to the desirability of establishing a branch at MacDade Boulevard and Kedron Avenue.

Q. Is this the same branch we were just discussing?

A. Yes.

Q. Do you have any knowledge as to whether this is a recommendation which he made internally in the bank?

It appears to me to be and I just want to see if you can confirm that.

A. I would think so. There is a recommendation on the fourth page, that I have not read, although the first sentence is that it is recommended that a branch be located in this vicinity.

Q. All right. Would you read the last paragraph on the fourth page?

A. The last paragraph on the fourth page?

Q. Yes, sir.

[fol. 1680] A. "This branch recommendation would give us better coverage in Delaware County with 69th Street would have"——

May I read that again? I am afraid I lost these words.

"This branch recommendation would give us better coverage in Delaware County and with 69th Street we would have good representation throughout the lower eastern section of the County. This much needed coverage would enable us to compete more effectively with Delaware County National Bank, Fidelity-Philadelphia Trust Company, and Girard Trust Corn Exchange Bank."

Q. Now, in what manner would it permit you to compete more effectively with the Girard Trust Corn Exchange Bank?

A. I wouldn't have the faintest idea. They are four to five miles away from that location.

Mr. Reycraft: I don't know whether Your Honor's copy of the next document is as illegible as mine, but this is a

letter from Hollis S. Haggard, Chief National Bank Examiner, dated April 30, 1959, which we ask be marked as Government's Exhibit No. 96.

(Letter dated April 30, 1959, from Hollis S. Haggard, Chief National Bank Examiner, to Mr. Frederic A. Potts [fol. 1681] was marked Exhibit G-96 for identification.)

Mr. Reycraft: And I will read the last paragraph——

> The Court: "It has been concluded that the banking needs of the area are being adequately served and do not warrant the establishment of an additional branch unit. This application has therefore been disapproved."

Mr. Reycraft: Thank you, sir.

By Mr. Reycraft:

Q. I take it, Mr. Worstall, this is the same office we have been discussing?

A. Yes, sir.

Q. And that decision was later changed?

A. Indeed it was.

Mr. Reycraft: Will you mark as Government's Exhibit No. 97 a one-page document dated April 27, 1959, from Mr. George H. Renninger to Ellis B. Ridgway, Jr.

(Memorandum, The Philadelphia National Bank, dated April 27, 1959, from George H. Renninger to Ellis B. Ridgway, Jr. was marked Exhibit G-97 for identification.)

By Mr. Reycraft:

Q. G-97, sir, indicates, does it not, that one of the reasons for establishing this branch was to retain the business of [fol. 1682] your customers at the Scott Paper Company?

A. It mentions that in here, yes.

Mr. Reycraft: Will you mark as Government's Exhibit No. 98 a one-page document dated May 18, 1959, from George H. Renninger to Mr. E. Lawrence Worstall.

(Memorandum dated May 18, 1959, from George H. Ren-

ninger to E. Lawrence Worstall was marked Exhibit G-98 for identification.)

By Mr. Reycraft:

Q. Mr. Worstall, referring to Government's Exhibit No. 98, can you tell me whether there was any opposition by other banks in the area to the opening of the branch at MacDade Boulevard?

A. I am sorry, if there was any what?

Q. Opposition.

A. Opposition?

Q. You might examine the document, sir.

A. Well, I suppose I should read that part of it.

Q. Yes.

A. It says here it was his opinion that the most opposition had been raised by Delaware County National Bank. I have no knowledge of that whatsoever.

Q. You have no knowledge at all of that?

A. None whatever. I had no idea whether they objected [fol. 1683] or whether they didn't. We wouldn't know.

Q. Pardon me. You did receive a copy of this memorandum, didn't you?

A. I may have. I no doubt did. It was addressed to me.

Q. But you don't remember anything about it?

A. Well, I think the memorandum is sufficiently unimportant to ignore it completely. I don't think he had any reason to write such a memorandum. I don't think it was appropriate at that time.

Q. Well, however, that may be.——

A. It is unimportant.

Q. —you have no knowledge of any opposition——

A. No.

Q. —by Broad Street Trust?

A. Well, now, wait a minute.

Mr. Littleton: He didn't say that.

The Witness: No, you didn't say that, I don't think.

Mr. Reycraft: Just a minute.

The Witness: Back up.

Mr. Reycraft: Let me ask you a question.

The Witness: Right.

By Mr. Reycraft:

Q. Do have have any knowledge that at the time or at [fol. 1684] around the time this application was made there was opposition by the Broad Street Trust Company to the application?

A. I don't think I did at that time. Of course, I knew it later.

Q. When did you learn about it?

A. Well, when a suit was filed to stop us from opening the office after the approval had been given to us.

Now, I don't recall having had any conversations——

Q. What was the basis of the suit which was filed?

A. I don't believe I can recall, except that I believe he felt that the area was banked satisfactorily, and he didn't see the need of an additional office there. That's Broad Street Trust Company, I am speaking of.

Q. All right.

What was the outcome of that suit?

A. The suit was withdrawn voluntarily by the Broad Street Trust Company.

Q. Do you know why?

A. I think possibly it was realized that we had received approval on it and possibly there was a need, after all, at that particular location for that office.

Q. Do you have any knowledge as to whether any opposition was raised by the Delaware County National Bank? [fol. 1685] A. I have no knowledge whatsoever.

Q. Either before or after the application?

A. Either before or after. Nothing came direct to me on that.

Mr. Reycraft: Will you mark as Government's Exhibit 99 a two-page document dated June 3, 1959, a letter from E. Lawrence Worstall to Mr. Hollis S. Haggard, Chief National Bank Examiner.

(Two-page letter dated June 3, 1959, from E. Lawrence Worstall to Hollis S. Haggard was marked Exhibit G-99 for identification.)

By Mr. Reycraft:

Q. Mr. Worstall, this is a letter which you wrote after the earlier application was denied, is it not?

A. June 3rd was after the date you gave, I assume, yes.

Q. Was the branch approved shortly after this?

A. I don't recall the date. Maybe it is in some of our other papers. The date of approval, I don't recall.

Mr. Reycraft: Do you wish to examine on these documents?

Mr. Littleton: Are you finished with MacDade Boulevard?

Mr. Reycraft: Yes.

[fol. 1686] Cross-examination. (Resumed)

By Mr. Littleton:

Q. Mr. Worstall, will you address yourself to page 5 of the information for Examiner in connection with the proposed branch in Ridley Township?

A. What exhibit is that, please, Mr. Littleton?

Q. 93.

A. 93, and what page?

Q. 5.

A. 5, yes.

Q. At the time this application for this branch was originally submitted, what were the number of banking offices or, rather, what was the amount of population per banking office in this area?

A. In 1957 the population was 81,690 and per office 13,615.

After the PNB branch, there would be seven offices in the area, having a per-office population of 11,670.

Q. Have you any idea what the national average is of population per bank?

A. No, I don't. I think we usually figure seven to eight thousand, something like that.

Q. Seven to eight thousand?

[fol. 1687] A. Seven or eight thousand.

Q. As a matter of fact, since 1957, has this population grown?

A. The area has grown quite rapidly; I would assume in total it is higher.

Q. Residentially?

A. Residentially.

Q. Industrial?

A. Well, the population increase has come largely, I think, from the residential end. I don't know if there has been too much industrial development. There may have been.

Q. As a matter of fact, Mr. Worstall, since your application was approved Fidelity-Philadelphia Trust Company has got an approval from the State Banking Secretary to open another branch in the area, has it not?

A. Their application was filed after our original application was filed and there's was approved and they established their branch, yes.

[fol. 1688] Q. And the first Pennsylvania Company has gotten approval to open another branch in the area, have they not, since your application?

A. Since our application was filed, they filed, and they have approval for an office to be established within three-quarters of a mile of us on McDade Boulevard.

Mr. Littleton: That is all. Thank you very much.

Direct Examination.

By Mr. Reycraft:

Q. Would you say these two offices represent efforts by the banks referred to to compete with you?

Mr. Littleton: If you know.

A. I wouldn't have any idea.

Q. You wouldn't have any idea how they compete?

A. I would assume they want to protect their own business in that area, particularly knowing that we were going in there.

Q. Is it your observation, on the basis of your knowledge of the banking business in this area, that banks do compete by establishing branch offices?

A. Banks offer services that do compete with each other. I think their objective is to offer the best service they can [fol. 1689] to attract the public.

Q. And do you think they compete with each other?

A. I guess under those circumstances they would have to.

Q. And do you think that one of these forms of competition is to establish branches convenient to the customers.

A. Well, I would maybe put it in a little different way: From our viewpoint we feel we must establish branches to move with our people into the suburban areas to retain our business and hope to attract more.

Q. And if you don't move with them, do you think they may go to a more convenient office?

A. If we don't move with them, we might lose.

Q. And you might lose them to another commercial bank?

A. I don't know where they would go, but they would no doubt leave us.

Q. Where would they go for banking services?

A. Commercial bank.

By Mr. Littleton:

Q. Where would they go for their savings deposits, Mr. Worstall?

A. The question was where would they go for their [fol. 1690] savings deposits?

Q. Yes.

A. Mutual savings associations, savings and loan associations, mutual savings banks.

Mr. Littleton: That is all.

By Mr. Reycraft:

Q. Mr. Worstall, is there any area of whatever size in the Philadelphia area, in the four-county area, in which you have branches, in which you do not have banking business?

(No answer.)

The Court: Read the question.

(The last question was read.)

Mr. Reycraft: I will do that again.

The Witness: I throw up my hands and say I don't know.

Mr. Littleton: Wait a minute. He is going to ask another question.

By Mr. Reycraft:

Q. Mr. Worstall, is it a fact that your bank draws banking business throughout the four-county area where you have branches?

A. It is a fact that our bank draws business throughout [fol. 1691] the four-county area where we have branches?

Q. Yes.

A. Why, certainly. That is why we put branches in the area, to draw business.

Q. Is there any area in the four-county area where you do not have substantial business?

A. I wouldn't have the faintest idea.

Q. Really?

A. No, I don't know that we have made a survey on that. I haven't seen it. There are plenty of areas where we don't have branches in the four-county area.

Q. And is it your assumption that you don't have any banking business there?

A. No, that wouldn't be my assumption at all, no. I say I don't have definite direct knowledge. There may be a particular area of Keswick or Glenside that we might not have any business. I don't know.

Q. How often do you make surveys for the purpose of deciding where to locate a branch?

A. Our branch administration group is constantly looking for desirable locations—constantly.

Q. How many times a year would they examine a particular site or proposed site?

A. I don't think there would be that regularity to it. [fol. 1692] When they feel they come up with something, like we did here on McDade Boulevard, they would report it to us and we would review it and decide what we want to do, but we don't say to them, "You must come up with two applications a year or four applications a year." We do not do that.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 100 a one-page document dated May 27, 1959, a letter from William B. Carr, secretary-treasurer of the Philadelphia Clearing House Association, to members of the Clearing House Committee and members of the Bank Operations Committee.

(One-page document dated May 27, 1959, letter from William B. Carry, secretary-treasurer of the Philadelphia Clearing House Association, to members of the Clearing House Committee and members of the Bank Operations Committee, was marked G-100 for identification.)

By Mr. Reycraft:

Q. Can you tell us what the Philadelphia Clearing House Association is?

A. I am not a member of the Philadelphia Clearing House in the way of attending any of their meetings. I don't think I have ever attended one of their meetings.

[fol. 1693] Mr. Littleton: The question is, what is it?

The Witness: There a number of banks that are members of the Philadelphia Clearing House Association and have been for many, many years. How many, I can't tell you even. I don't know.

By Mr. Reycraft:

Q. Do you know what the Clearing House Association is?

A. Well, originally they were established to help clear checks between banks in Philadelphia, and it operated that way for many, many years, and I believe that that operation has been absorbed by others. I am not really sure. I think maybe our operations fellows would have to handle that for you because it is removed from my area.

Q. The Philadelphia National Bank is a member of the clearing house Association, is it not?

A. Yes, yes.

Q. You say you have never attended any meetings?

A. I may have attended one in substitution at one time, but I think only one, and that may be a couple of years or so ago.

Q. Are you a member of any of the committees of the Clearing House Association?

A. No, sir.

[fol. 1694] Q. Who from your bank attends the meetings?

A. Our president. In his absence, the executive vice president.

Q. Do you have any knowledge of the resolution of the

Clearing House Committee on March 6, 1959, concerning the submission of information to members of the Clearing House concerning branch applications?

A. No, sir, I do not. I have seen these things as they have come through, but I never saw the resolution.

Q. Do you get copies of these communications regularly?

A. I think they are passed around. They don't come direct to me. I may see them all; I may not.

Q. Do you know the purpose for which these copies are sent to you?

A. I am sorry. I don't know what the origin of the resolution was.

Q. Has it been your experience that you would get a copy of informational memoranda with respect to each new branch application in the area?

A. I see a good many of them. I don't know that I would see each one.

Q. But you do see a good many?

A. I see them as they come through, some of them.

[fol. 1695] Q. And these applications include those by banks other than the Philadelphia National Bank?

A. Yes.

Q. Do you have any knowledge of any application which have been made since March of 1959 as to which you have not received this type of informational memorandum?

A. I wouldn't have the faintest idea how many I received, from whom, whether it would be all or not.

Cross-examination.

By Mr. Littleton:

Q. Mr. Worstall, isn't it a fact that when an application is made to the Secretary of Banking of the Commonwealth of Pennsylvania for the establishment of a branch or for a cross-county merger, that the Secretary of Banking sends notice of such application to every other bank, state or national, within the area?

A. He very often will send a representative in to talk to us.

Q. Does he send notice to each bank within the area of the application?

A. I am not sure. I don't believe I could answer that in the affirmative. I am not sure.

[fol. 1696] Q. I will ask you a similar question with respect to the Comptroller of the Currency. Do you know that or would there be somebody else who would know that?

A. Usually in that case we do get a letter from a representative of the Examiner's Division in Philadelphia representing the Comptroller's Department, yes, we do.

Q. That is, if an application is made to the Comptroller for the establishment of a branch or for a cross-county merger?

A. I would have to qualify that and say I think he would send us a notice when it would be in an area where we have a branch.

Q. And you don't know about the State Secretary of Banking?

A. I am sorry. They every often send a man in to talk to us, but the report, I don't know.

By Mr. Reycraft:

Q. You don't have any knowledge either, do you, Mr. Worstall, as to whether the State Secretary of Banking or the Comptroller's office sends notices of the type Mr. Littleton described to the Clearing House Association?

[fol. 1697] A. No, I wouldn't know that.

Mr. Reycraft: That is all.

Mr. Littleton: I have no further questions.

The Court: We will take our break at this point.

(A 10-minute recess was taken at 11:00 o'clock A.M.)

Ellis B. Ridgway, Jr., affirmed.

Direct examination.

By Mr. Reycraft:

Q. Mr. Ridgway, are you an employee of the Philadelphia National Bank?

A. I am.

Q. What is your position, sir?

A. Vice president.

Q. And will you tell me what your duties are.

A. I am in charge of the retail division, which has the responsibility for branch operations performance, not the operating factor, but branch performance, installment credit, retail service.

Q. Whom do you report to in the bank, Mr. Ridgway?

A. Mr. Worstall.

[fol. 1698] Q. Who reports to you?

A. The area vice presidents, who may have responsibility for more than one office, the managers of unit offices, and the members of my immediate staff and branch administration and development, which are two men.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 101 a one-page memorandum dated January 3, 1961, to which is attached a four-page document headed "Exhibit G, Service Charges."

(One-page document dated January 3, 1961, with attached four-page document headed "Exhibit G, Service Charges," was marked Exhibit G-101 for identification.)

Q. Mr. Ridgway, did you have occasion during January of this year to review with certain of the branch managers, personnel of the Philadelphia National Bank, the service charges which were proposed to be put into effect by the merged bank?

A. I did.

Q. Will you refer to Government's Exhibit 101, Mr. Ridgway, and tell me whether you have had an opportunity to examine the attachment to Government Exhibit 101, which is Exhibit G on the application.

[fol. 1699] A. I have.

Q. Referring to the first page of Exhibit G, can you tell me what a maintenance charge is.

A. I would like to disqualify myself as an expert on the preparation, cost accounting, development of service charges.

Q. You do have knowledge, however—

A. Of the specific charges, that is right.

Q. Can you tell me what a maintenance charge is?

A. This is a charge which is made monthly, if it is a

monthly maintenance charge, to cover certain expenses incurred by the bank on a regular basis. I cannot tell you all the charges that are included in this particular one nor the expenses that go with it.

Q. Can you tell me what was proposed to be done with the maintenance charge of the Philadelphia National Bank after the merger?

A. It is my recollection that the Philadelphia National Bank accounts at the time of the merger, if it had occurred, would stay the same.

Q. Can you tell me what the maintenance charge would be for new accounts of the merged banks? You may refer to Exhibit G, Mr. Ridgway.

A. If I had the full application, perhaps I could. I [fol. 1700] have a recollection that something was said about the two banks.

(Mr. Reycraft handed to the witness Exhibit G-57, the application to merge.)

The Witness: May I ask for another Government exhibit? There is one somewhere where I have seen this comment. You have called into exhibit some statement as to what the procedure would be after the merger. May I have that, as your witness?

Mr. Reycraft: The only ones we recall, Mr. Ridgway, are the application, a copy of the service charge part of the application, which we identified as an exhibit, and Government's Exhibit 101, which contains a copy of what appears in the application.

The Witness: I will have to answer your question, in the absence of that, I don't know as of now.

The Court: Wasn't there an exhibit setting forth the differential in service charges, Mr. Reycraft? It seems to me we discussed these before and that there was an exhibit that had something to do with that.

Mr. Reycraft: Well, Dr. Gaffey prepared an exhibit in- [fol. 1701] dicating certain charges which went up and went down.

The Court: Yes. Well, that is the one that I am talking about.

By Mr. Reycraft:

Q. I hand you Government's Exhibit No. 45-A. Is that the one you are referring to?

A. That is not it, but it is my recollection that the Philadelphia National customers would have a choice, as would the other banks' customers, after the merger, and that was your question.

Q. My question now is, can you tell me by referring to Government's Exhibit No. 101 the figures which appear on the line after "Maintenance." Does that indicate that Philadelphia National Bank's charge for maintenance will be increased from 25 cents per month to 50 cents per month?

A. This statement says that.

Q. What does it indicate with reference to the change in the Philadelphia National Bank's charges on returns?

A. They are increased $1.

Q. And with reference to stopped payments?

A. That is increased $2.50.

Q. And with reference to certified checks?

[fol. 1702] A. Increased 50 cents.

Q. And with reference to official checks?

A. Increased 40 cents.

Q. And with reference to deposit items returned?

A. 15 cents.

Q. And with reference to additional statements?

A. 75 cents.

Q. These are all increases you are indicating?

A. Yes.

Q. Can you tell me, Mr. Ridgway, with reference to the balances from zero to $299, what the existing service charge is of the Philadelphia National Bank?

A. I would like that described by somebody who can do it with greater accuracy for the Court's benefit than I can do it.

Mr. Littleton: I didn't hear you.

The Witness: I would like someone to describe that with greater accuracy than I can for the Court's benefit. I can give you a layman's——

By Mr. Reycraft:

Q. If you know, Mr. Ridgway, your description will be satisfactory.

Mr. Littleton: Do you know?

[fol. 1703] The Witness: I do not know.

By Mr. Reycraft:

Q. You don't know what the Philadelphia National Bank's service charges are for balances from zero to $299?

A. I cannot explain how it would apply to an account or all accounts.

The Court: He didn't ask you that. He asked you what the charge is. Is it shown there? If it is, give it to us.

The Witness: Would you point out the item you would like me to report to you.

By Mr. Reycraft:

Q. Can you tell me, Mr. Ridgway, whether the sentence which appears under "Balances zero to $299" after "Remarks" and then the additional information refers to the Philadelphia National Bank's service charges for accounts with balances from zero to $299.

A. It does not.

Q. Do you know whether there is a service charge which the Philadelphia National Bank now charges for balances from zero to $299?

A. Our service charge is not limited to specific amounts, [fol. 1704] as I understand it, to specific breakdowns, as are listed here.

Q. Is there a service charge for an account in this range at the present time?

A. That is right.

Q. Do you know how much it is?

A. I know the earnings credit which is permitted on the balance on the new item charge. I don't know how it would apply to this particular segment, since there is no way of comparison.

Q. What is the item charge?

A. The item charge is six cents for each check drawn and three cents for each check deposited in an account of approximately this size, I would guess.

Q. Do you know whether any change is contemplated if the merger is approved?

A. Yes.

Q. What is the change?

A. The change is suggested in this schedule which you have before you, which suggests that we insfall for the merged bank a metered service which is described as on balances of zero to $299 there will be a charge of $1 and that that will permit five items free, and each additional [fol. 1705] item would be charged at the rate of five cents per item.

Q. Is this an increase over Philadelphia National Bank's existing service charge?

A. This is difficult, sir, and I tried to disqualify myself. Depending on the balance, for which there would be credit granted, and the amount of activity, it is difficult to say specifically what would be the difference, and I would guess that this would represent—well, I don't know.

Mr. Littleton: Do you know?

The Witness: I don't know.

Mr. Littleton: If Your Honor please, may I just interject at this point to say, when Mr. Reycraft told us he wanted to talk about service charges, I told him that the man who knew most about that was the vice president in charge of operations, senior vice president in charge of operations, Mr. Cooper. I have told him that on three or four occasions, but he for some reason or other seems to want Mr. Ridgway. Mr. Cooper is right in the court room, and I just suggest—

Mr. Reycraft: The documents indicate, Your Honor, that Mr. Ridgway has had an opportunity to survey service [fol. 1706] charges in connection with this proposed merger, and I think that—will, in fact, there are specific questions that I think only he can answer.

Mr. Littleton: I call your attention, if Your Honor please, to G-101, with the attached four sheets, which is presently before the witness, and Mr. Ridgway's name does not appear anywhere on such documents.

[fol. 1707] By Mr. Reycraft:

Q. Mr. Ridgway, do your branch managers ever have occasion to ask you about service charges?

A. They do.

Q. You are their boss, aren't you?

A. That's right.

Q. And if they want to find out about service charges, would they talk to you?

A. That's right.

May I volunteer this much—the construction, as I indicated before—the construction, the costs in the allocation, is an area in which I do not have anything directly under my responsibility. I am concerned with other aspects of service charges rather than construction and costing of them.

Q. Yes.

Well, now, I understand from your testimony that with respect to the balancing of charges for checks and for deposited items and the credits which are given for earnings, in varying accounts it may come out plus or minus; isn't that correct?

A. That's right.

Q. So that what you are indicating is that you do not [fol. 1708] know with respect to any particular account whether there would be an increase or not?

A. That's right.

Q. All right, sir.

Isn't it a fact that the $1 charge which is indicated on the first page of Exhibit G is a new charge?

A. That is a new charge for Philadelphia National Bank customers.

Q. Thank you.

Now turning to the next page of Exhibit G, which is the attachment to Government's Exhibit 101, will you tell me whether there is going to be a change in the charge by the Philadelphia National Bank for checks deposited?

A. That in the middle of the page you are referring to?

Q. The second line, checks deposited, personal, over $500.

A. There will be an increase.

Q. In what amount?

A. From 3 cents to 5 cents.

Q. That is for the the first how many items?

A. The first two thousand items.

Q. And over that amount?

A. Over that amount there will be an increase of 3½ cents.

Q. Per item?

[fol. 1709] A. Per item. The latter applies to balances over $2500.

Q. I beg your pardon?

A. I beg your pardon?

Mr. Reycraft: Would you read his answer?

(The reporter read the testimony as follows: "The latter applies to balances over $2500.")

By Mr. Reycraft:

Q. Now with reference to the charge for deposit tickets, what does the exhibit indicate?

A. That the deposit-ticket charge will remain the same.

Q. And that Girard would increase its charge to the Philadelphia National's charge?

A. 5 cents.

Q. Now with reference to earnings credits, will you explain what an earnings credit is?

A. An earnings credit is the amount credited to the customer against which is charged the operating costs, based on average balance and the rate.

Q. Is an earnings credit similar to interest?

A. No, it is not similar to interest.

Q. It is a payment, however, which the customer——

A. It is not a payment.

Q. Is it a credit?

A. It is an offset to expense.

[fol. 1710] Q. It only offsets his service charges?

A. That's right.

Q. And if the credit exceeds the service charges, there is no payment to the customer; is that correct?

A. That's right.

Q. All right.

Now, the exhibit indicates, does it not, that the earnings credit in effect at the Philadelphia National Bank would be the same after the merger?

A. That's correct.

Q. And it indicates, does it not, that the Girard will increase its earnings credits?

A. That's correct.

Q. Now with reference to deposit tickets for accounts for companies over $500, what does the exhibit indicate with reference to the Philadelphia National Bank?

A. Will you ask your question again?

Mr. Reycraft: Will you read the question?

(The reporter read the pending question.)

The Witness: That the deposit-ticket charge of 10 cents will be continued.

By Mr. Reycraft:

Q. And what does it indicate with reference to the Girard's charge for deposit tickets?

[fol. 1711] A. That it will be increased 5 cents.

Q. To the Philadelphia National Bank's charge?

A. (No response.)

Q. Now turning to the next page of Exhibit G which is attached to Government's Exhibit 101, what is indicated with reference to the change in the charge for nonsufficient funds with respect to Philadelphia National Bank?

A. It will be increased one dollar.

Q. And uncollected funds?

A. Increased one dollar.

Q. And postdated?

A. Increased one dollar.

Q. Overdrafts?

A. Increased two dollars.

Q. Deposited checks returned?

A. Increased 15 cents.

Q. Certified checks?

A. Increased 50 cents.

Q. Official checks?

A. Increased 40 cents.

Q. Register checks?

A. Remains the same.

Q. Stop payments?

A. Increased $1.50.

[fol. 1712] Q. And regular collections?

A. Remains the same.

Q. What is collection L of C?

A. Letters of credit.

Q. And what is the change there?
A. There is no change.
Q. And with reference to the Girard?
A. There is an increase of $1.50.
Q. Is the next abbreviation "Security Drafts"?
A. I can't answer that.
Q. You don't know?
A. I can't answer it positively.
Q. Well, do you have an opinion?
A. (No response.)
Q. Do you think you know?
A. I do not know.
Q. Well, the indication as it appears on the exhibit is "Collections—See. Dfts."
What does the exhibit indicate with respect to that item?

Mr. Littleton: Secured drafts, Mr. Reycraft.
Mr. Reycraft: Thank you, Mr. Littleton.
The Witness: The Philadelphia National charges remain the same.

[fol. 1713] By Mr. Reycraft:

Q. And Girard?
A. Increased 25 cents.
Q. And what is the charge which the Philadelphia National now makes for bulk currency deposited?
A. There is no charge.
Q. And for the Girard?
A. There is no charge.
Q. And what is to be the charge after the proposed merger?
A. $5 per hour or 5 cents per minute, 50 cents minimum.
Q. What change is indicated with reference to rolled coin?
A. With respect to——
Q. Philadelphia National.
A. Rolled coin, from 1½ per roll to 2 cents per roll.
Q. Did Philadelphia National have a minimum on this before?
A. I can't answer. It is not reported here. A minimum of 20 cents.
Q. There would be a minimum of 20 cents after the merger?

A. That's right.

Q. Now with reference to pay rolls, what is indicated with respect to Philadelphia National?

A. 15 cents per 100 units.

Q. And what is the change proposed?

A. $3 per hour or 5 cents per minute, with a 50-cent minimum.

[fol. 1714] Q. Do you know whether that is an increase?

A. I do not know whether this represents an increase.

Q. What is indicated with reference to the charge for wire transfers now in effect at Philadelphia National Bank?

A. Present charge, 25 cents.

Q. And after the merger?

A. $1.25 analysis plus direct change for out-of-pocket expense.

Q. What is indicated with reference to checks cashed?

A. Philadelphia National Bank has no set policy.

Q. And after the merger?

A. 20 cents plus item charge.

Q. What is indicated with reference to coupons per envelope?

A. The Philadelphia National charge remains the same.

Q. What happens to the Girdard's charge?

A. Increased 10 cents.

Q. What is indicated with reference to the charge for maintenance charge for correspondent banks?

A. Philadelphia National charge remains the same.

Q. And the Girard's charge?

A. Increased $1.

Q. And with reference to checks drawn?

A. The Philadelphia National charge remains the same.

Q. And the Girard's charge?

[fol. 1715] A. Increased from 5 cents and 4 cents to 6 cents.

Q. And for large volume, it remains the same, does it not?

A. It remains the same.

Q. What is indicated with reference to the checks-deposited charge for correspondent banks?

A. Philadelphia National charge remains the same.

Q. And the Girdard's charge?

A. Remains the same—no, excuse me. On volume less

than $5,000, its increased from 1½ cents to 3 cents; over 5,000, increased from 1 cent to 1½ cents.

Over $2,000, the Philadelphia National charge remains the same.

Q. Now, with reference to cash letters, what is indicated?

A. The Philadelphia National charges remain the same.

Q. And the Girard's charges?

A. Are increased from either 5—from 5 to 3 cents to 10 cents.

Q. And with reference to coupons per envelope?

A. The Philadelphia National charge remains the same.

Q. And Girard?

A. Increased 5 cents.

Mr. Reycraft: Do you wish to examine on this exhibit?

[fol. 1716] Cross-examination.

By Mr. Littleton:

Q. Mr. Ridgway, you have been testifying from or reading from 101, which was given to you by Mr. Reycraft; and more particularly you have been reading from four pages headed Exhibit G, which are obviously copies of pages 104 to 107 of the application of the two banks for permission to merge, which the Antitrust Division has introduced here as G-57. I said they are copies, except for the opening paragraph on the first page.

You have been just reading these figures off to Mr. Reycraft, have you not?

A. That's correct.

Q. Now, will you look at that first page of Exhibit G as handed to you by Mr. Reycraft in G-101 and tell me what it says is being proposed for the resulting bank for returns NSF, which is not sufficient funds, or uncollected funds?

I notice there was a charge for the charter bank of $2, of the merging bank of $2, and then what does it say on the exhibit Mr. Reycraft has handed you as proposed for the resulting bank?

A. On the copy he handed to me, the charge for the proposed bank is $3.

Q. And that 3 appears there in lead pencil or ink?

[fol. 1717] A. That's correct.

Q. Is that you marking?

A. That is not my marking.

Q. Will you refer to the Antitrust Division's Exhibit G-57 and tell me what that figure is in that, which is the application that has been made by these two banks. You will find it on page 104.

A. The charge on that document is $2.

Q. Not 3, as it is in this change that has been made in the exhibit Mr. Reycraft has handed you?

A. That is correct.

Q. Will you look at the next charge, stop payments, and tell me what is proposed for the resulting bank on the figures of G-101 that Mr. Reycraft handed you?

A. The charge for the proposed bank is $3.

Q. And again is that 3 put in in handwriting rather than typed?

A. That is overwritten.

Q. It is a 3 written over a 2?

A. Yes.

Q. And what is it on G-57, the application which the banks made?

A. $2.

Q. Can you understand why the change has been made?

[fol. 1718] A. I do not know.

Q. You didn't make it?

A. I did not.

Q. You don't know anything about it?

A. (No response.)

Mr. Littleton: That's all.

Mr. Reycraft: Will you produce the original of G-101, Mr. Littleton? This is a copy which was furnished to us by your bank.

Mr. Littleton: It is whatever you have.

Mr. Reycraft: We would like to have the original document.

Direct examination. (Resumed)

By Mr. Reycraft:

Q. Mr. Ridgway, did you have occasion to review the service charges as proposed in the application for approval with your branch banks?

A. I did.

Q. Did you circulate to them a copy of the proposed service charges?

A. I did.

Q. In what form did you circulate this information to the branch managers?

[fol. 1719] A. In the form of the proposal to merge, which is Government's Exhibit——

Q. 101 or 57?

A. No, this.

Q. 57?

A. 57.

Q. So that you circulated the entire Exhibit 57?

A. It is my recollection that nearly all of them got the entire——

Q. And it is your belief that the information which they relied upon was the information contained in the application in making their comments?

A. Yes.

Q. Now, Government's Exhibit No. 101, which contains an excerpt from the application, is a recommendation from the Service Charge Committee to the Chairman of the Operations Task Force Committee recommending that the service charges which appear on the attachment be adopted, is it not?

A. That is correct.

Q. And that recommendation was made prior to the time you reported to Mr. Cooper on the results of your survey of the branches; isn't that correct?

A. That is correct.

A Q. Now, Mr. Ridgway; will you tell me which of the [fol. 1720] banks you consulted with concerning the proposed service charges?

A. I can not do that from memory.

Q. All right.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 102 a two-page memorandum dated January 18, 1961, from Ellis B. Ridgway, Jr., Vice-President, to G. Edward Cooper, Senior Vice-President.

(Two-page memorandum dated January 18, 1961, from Ellis B. Ridgway, Jr. to G. Edward Cooper, was marked Exhibit G-102 for identification.)

By Mr. Reycraft:

Q. Now, referring to Government's Exhibit No. 102, can you tell me now the names of the managers with whom you reviewed these service charges?

A. W. Bruce Fye, Bucks County; George M. Renninger, Chester Area; Frank Dyer, Northeast; Frederick Erb, Citizens office in Pottstown; Alan Resendorf, Hatboro office; Harold Koch of the Lansdale office; C. R. Gillam, Jr., the Montgomery office in Norristown.

Q. And why did you select these branch managers?

A. These managers represent a good cross section of the several areas which are served by the bank. They represent a substantial number of customers and they include all offices where service charges differ from the [fol. 1721] central city Philadelphia service-charge schedule.

Q. Do you know the reason for the differentiation between the service-charge schedules in some of these offices and those in the central city office?

A. Would you be specific as to which office?

Q. All right. Bucks County.

A. This is the last office with whom our bank has merged. We contemplate centralizing bookkeeping, where there will be a similarity in costs and operations; and for that reason we have not changed the service-charge schedule with respect to the regular checking accounts since the merger.

Now, what is the name of the bank which was acquired, through which your bank obtained this office?

A. Delaware Valley Trust Company.

Q. Were its service charges lower than your bank's at the time of acquisition?

A. Sir, I am not trying to avoid your questions. There are areas in the service-charge schedule where the Philadelphia National charges differed and the effect on certain customers would be higher or lower, so that I can not give you a categorical answer that they were either higher or lower.

They were different and as indicated here some of the charges are lower than the center Philadelphia National charges.

[fol. 1722] Q. Is it a fact that with respect to the Bucks

County office the service charges of the acquired bank were maintained in effect?

A. Beg pardon?

Mr. Reycraft: Would you read that, please?

(The pending question was repeated by the reporter.)

The Witness: Generally, that's so; correct.

Mr. Reycraft:

Q. Now with reference to the Chester area office, do you know the reason for the difference in the service charges, if there was one?

A. This also is a centralized—decentralized office, which does its own bookkeeping and certainly the reason I have given you for the service charges remaining substantially the same—I can not give you exactly—substantially the same applied to the planned move to centralization, and undoubtedly competition has something to do with it.

Q. Now, was the Chester office also involved in an acquisition?

A. It was.

Q. Which bank was that?

A. Chester-Cambridge.

[fol. 1723] Q. Now with reference to the Northeast office, can you tell me the reason for the difference in the service charges at that office?

A. The service charges at the Northeast offices are the same as the Philadelphia National service charge schedule.

Q. And with reference to the Citizens office?

A. This office has been centralized and its charges are substantially the same as the central office, but they are not exactly the same.

Q. When was the Citizens office centralized?

A. Within the past—within the past year. The exact date, I don't recall.

Q. Was that office also brought into the Philadelphia National Bank group through an acquisition?

A. It was.

Q. And which bank was that?

A. The Citizens Bank of Pottsdown.

Q. Was the same service-charge schedule kept in effect until recently?

A. The changes that have occurred have been within the past year.

Q. And up until that time the service charges were the same as at the time of acquisition?

A. Substantially the same.

[fol. 1724] Q. Now, with reference to the Hatboro office, can you tell me the reasons for the different service charges?

A. I have nothing as to the reasons for service charges in addition to what I have already given. They would be substantially the same as Chester.

Q. With reference to Hatboro, was that involved in an acquisition?

A. That office was acquired through merger.

Q. Which bank was merged?

A. Hatboro National Bank.

Q. And when was it acquired?

A. May I refer to the exhibit?

Q. Certainly, you may refer to the application.

Mr. Littleton: Page 20, Mr. Ridgway.

The Witness: December 9, 1955.

By Mr. Reycraft:

Q. Has the same service-charge schedule been kept in effect since that date?

A. No.

Q. Has it been increased?

A. On balance, the charges have been increased, although there were adjustments rather than across the board.

Q. With reference to the Lansdale office, was that office involved in an acquisition?

[fol. 1725] A. It was.

Q. And what bank?

A. The First National Bank of Lansdale.

Q. And its service charges were different than the Philadelphia National central charges?

A. That is correct.

Q. Were they lower or higher?

A. On balance, at the time of the merger, I think they were lower.

Q. When you say "on balance," do you mean some were higher and some were lower?

A. I have indicated, I think, sir, that service charges cover a variety of items and our earnings credit may be higher or lower or the item charge may be higher; and it is the combination of these things that makes it difficult to speak in general about a number of items that make up the package; and that's my difficulty.

Q. On the basis of your familiarity with the branch's operations, it is a fact, is it not, that the net effect is higher?

Mr. Littleton: If you know.

The Witness: I can not speak from direct knowledge. I have indicated——

[fol. 1726] By Mr. Reycraft:

Q. You are in charge of these branches, are you not, sir?

A. That's right.

Q. Do you know if the net effect is higher or lower?

A. I was not in charge of the branches at the time of merger, if you will recall,——

Q. Do you know the answer to my question?

Mr. Littleton: I am going to object to the question, if Your Honor please, unless Mr. Reycraft specifies what type of customer and what service.

The Court: Read the question.

(The pending question was repeated by the reporter as follows:

"Q. Do you know if the net effect is higher or lower?")

The Court: If he can answer it, I will let him answer it. Overruled.

(No response.)

The Court: If you don't know, say so.

The Witness: I have said I don't know.

The Court: All right. That's the answer.

By Mr. Reycraft:

Q. Do you know whether there was an increase in the [fol. 1727] service charges on checking accounts in the Lansdale office?

A. Would you repeat the question?

(The pending question was repeated by the reporter.)

The Witness: I do not know.

By Mr. Reycraft:

Q. Do you know what the effect will be of the application of Philadelphia National central charges to the Lansdale office?

A. The item charges—the per-item charge will be increased. The earnings credit will be also increased.

Changes in others, I can not answer specifically what the net effect will be.

Q. Do you have copies of the existing service charges of these offices?

A. Not in my possession.

Q. No. Do you have them in your office?

A. I do. I think they are——

Q. Will you bring them with you after lunch?

A. I will.

Q. With reference to the Montgomery office, can you tell me whether this office was involved in an acquisition?

A. It was.

Q. What bank?

[fol. 1728] A. Montgomery County National Bank.

Q. Are the service charges in effect at this office higher or lower than the Philadelphia National Bank's central-service charges?

Mr. Littleton: The same objection I made before, unless Mr. Reycraft is specific.

By Mr. Reycraft:

Q. Do you know the answer?

A. I must give the same answer. The per-item charges are different, the earnings credit is different.

Unless we had the balances per account, I don't know how I could answer the specific statement.

Q. Now, Mr. Ridgway, when you conducted your survey of the managers of the areas as you indicate in your

memorandum, you received copies of reports and recommendations from each of them, did you not?

A. I did.

Q. Now will you read the paragraph on the first page of Government's Exhibit 102 which describes their reaction?

A. "The reactions vary among the group depending largely on present and prospective competitive conditions. There is little concern with respect to center city based competitors, because they may be expected to have similar [fol. 1729] operating costs and a similar inclination to set charges approximating ours. The independent banks, which generally have lower charges (because of lower operating costs, lack of knowledge of costs, or of a desire to grow at the expense of current earnings) are a source of concern to those Managers who presently compete with them. Note that three Managers strongly recommend that the proposed charges not be installed in their areas (Pottstown—both Regular and Special; Chester—Regular; Norristown—Special)."

Q. Will you read the last paragraph of your memorandum on page 2?

A. "General comments: Our service charges on Regular and Special accounts should be increased"——

Mr. Littleton: Checking accounts.

The Witness: ". . . Regular and Special Checking accounts should be increased and should be uniform among offices. It is unfortunate that increases occur at the time of the merger as this could create an unfavorable reaction to the merger itself. Increasing our charges will result in a loss of customers and deposits and have a depressing effect on future customer and deposit development efforts—[fol. 1730] how much—will depend somewhat on the amount by which our prices exceed those of our competitors."

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 103 a three-page document which is a memorandum from W. Bruce Fye to Ellis B. Ridgway, Jr., Vice-President, dated December 5, 1960.

(Three-page memorandum dated December 5, 1960, from W. Bruce Fye to Ellis B. Ridgway, Jr., Vice-President, was marked Exhibit G-103 for identification.)

[for. 1731] Q. Mr. Ridgway, what branch office is Mr. Fye manager of?

A. He is area vice president in charge of the Bucks County offices.

Q. And what were his conclusions with reference to the proposed service charges on special and regular checking accounts?

(No answer.)

Q. Referring to the first page of his memorandum, did he indicate to you that he thought it would be desirable for some of your competitors to raise their service charges to your level?

A. That seems perfectly reasonably from an operating man's standpoint.

Mr. Littleton: Can I hear that question again, please?

(The last question and answer were read.)

Mr. Littleton: Where does it say that?

By Mr. Reycraft:

Q. Will you read the first sentence in the second paragraph on the first page, Mr. Ridgway.

A. "I would feel that the increase in maintenance charge would be acceptable if we felt that Fidelity and [fol. 1732] First Pennsylvania Company would be increasing their maintenance charge to a similar amount."

Q. Now, is Fidelity a competitor of your bank?

A. It is.

Q. Is First Pennsylvania?

A. It is.

Q. Does the memorandum also indicate that there was an increase in your maintenance charge in early 1960?

A. This refers to special checking.

Mr. Reycraft: Can you answer my question?

The Court: Read the question.

(The reporter read as follows:)

"Q. Does the memorandum also indicate that there was an increase in your maintenance charge in early 1960?"

A. Yes. This refers to special checking, not regular checking, and represented a change in procedure rather than necessarily an increase in amount.

Q. You lost a number of accounts at that time, didn't you?

A. That is correct.

Q. And does the memorandum indicate that for those customers who drew only one or two checks a month the [fol. 1733] maintenance charge would considerably increase the cost of the service to him?

A. That is correct, and those that wrote more than very few checks, the 10-cent lower per check charge was attractive.

Q. You haven't made any study of that, have you?

A. No study of it.

Q. Do you know, with reference to the regular checking accounts with balance from zero to $299 what were Mr. Fye's conclusions as communicated to you with reference to the competitive advantage or disadvantage?

A. His conclusions are that with each bank having a maintenance charge of a dollar, and the competing bank giving a certain number of free checks for the dollar, he would be at a competitive disadvantage with respect to this particular service charge, particular section of the service charge schedule.

Q. And it adds also, does it not, that this applies unless Fidelity contemplated making some adjustment in their charge?

A. Yes, that is right; that is correct.

Q. Now, referring to the second page of Mr. Fye's [fol. 1734] memorandum to you, in the paragraph headed "Personal—Over $500 Analysis," what was Mr. Fye's conclusion with reference to the comparison between First Pennsylvania and Fidelity charges?

A. "There has never been an item charge for deposit tickets in the area and the imposition of this charge would, I am sure, cause considerable controversy with our customers, with First Pennsylvania Co. and Fidelity charging only 5 cents for the deposit ticket. This could well be troublesome."

Q. What were his conclusions with reference to company accounts over $500 analysis, with respect to the proposed charge for deposit tickets?

A. "The proposed charge for deposit tickets would be of some consequence with this type of account but, in my opinion, not nearly as difficult to explain as in the case of the Personal accounts referred to above."

Q. Would you read the sentence which begins at the bottom of Page 2, beginning, "I would seriously question."

A. May I have that reference, please?

Q. Yes, the sentence which begins at the bottom of Page 2 and continues over on Page 3.

A. "I would seriously question the wisdom of disturb-[fol. 1735] ing the service charge situation until we were convinced that Fidelity and First Pennsylvania Co. were going to make some upward revision in their charges."

Q. And would you continue reading that to the end of the page.

A. "If it is felt that this is the case, I would feel that on balance the proposed charges are realistic and should be adopted. It would be my further conviction that we would lose a certain number of accounts but that the dollar balances involved would be insignificant. The value of serving this type of customer is questionable but, nevertheless, they do represent customers, and in some sense of the word The Philadelphia National Bank is their bank."

Mr. Reycraft: There is also attached to Government's Exhibit No. 102 a one-page memorandum from George M. Renninger, vice president, Chester area offices, to Ellis B. Ridgway, Jr., vice president, main office, and the date is illegible.

May we also have the original of this document?

Will you mark this document as Government's Exhibit No. 104.

[fol. 1736] (One-page memorandum from George M. Renninger, vice president, Chester area offices, to Ellis B. Ridgway, Jr., vice president, main office, date illegible, was marked Exhibit G-104 for identification.)

Q. Mr. Ridgway, Government's Exhibit No. 104 is a memorandum which was sent to you by Mr. George M. Renninger, is it not?

A. That is correct.

Q. Do you recall seeing this memorandum?

A. I do.

Q. And is it one of the memoranda that you forwarded to Mr. Cooper with your memorandum of January 18, 1961?

A. It is.

Q. Can you tell me what the source of the service charges is which is indicated at the top of Government's Exhibit 104.

A. The service charge schedule presently in effect in the Chester area offices.

Q. And this is the same schedule, is it not, which has been continued since the time this bank was acquired?

A. With one exception, that is correct.

Q. And does the memorandum to you indicate why this schedule of service charges was maintained in effect?

[fol. 1737] Mr. Renninger states his opinion. Would you like me to read it?

Q. What did he tell you?

A. "This has been done to meet competition from the local bank which has service charges in some instances even lower than ours. In a discussion of this problem with G. M. Stull of our Advisory Committee, he emphasized that any change upward in our charges would result in a flow of accounts to Delaware County National Bank. He firmly believes that J. N. Pew would welcome the opportunity to secure the additional accounts and that the DCNB people are not presently concerned with earnings from Service charges except as they might apply to such charges as NSF —Uncollected Funds, Post dated checks and the like."

Would you like me to continue?

Q. Yes, will you indicate what happened when the Fidelity applied its Philadelphia charges in this area.

A. "The Fidelity lost a great many accounts in number and volume when it applied Philadelphia area charges to its local Chester area accounts—it would appear that our experience would be the same. I would not recommend a change now in light of our need for regular checking accounts."

[fol. 1738] Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 105 a one-page memorandum dated December 23, 1960, from Frank Dyer, to Ellis Ridgway.

(One-page memorandum dated December 23, 1960, from Frank Dyer to Ellis Ridgway, was marked Exhibit No. G-105 for identification.)

By Mr. Reycraft:

Q. Mr. Ridgway, referring to Government's Exhibit No. 105, does this exhibit indicate that there has been a recent increase in service charges?

A. It does not.

Q. At the end of the second paragraph the sentence appears:

"This is gratifying in view of the recent increase which PNB put through."

I take it this refers to charges on special checking accounts. Do you understand what Mr. Dyer was referring to in the memorandum to you?

A. Yes, that was a change in registered check charges, which are a for sale item, and I did not consider that part of the general service charge schedule, in my recollection, and that charge went into effect sometime ago. The exact date I do not remember.

[fol. 1739] Q. What was Mr. Dyer's comment to you on the increase in the stop payment charge?

A. "It does seem that we are going pretty far in raising the stop payment charge from $.50 to $2.00, recognizing that this is the kind of thing that cannot always be controlled by the customer. This would represent a 400% increase over our present level and I see that the Service Charge Committee had recommended a price tag of $1."

Q. Now, Mr. Ridgway, with reference to the next paragraph, where Mr. Dyer referred to the technique planned for handling regular check balances under $500, do you know the source of his information that this system will be used by all of the city banks except the First Pennsylvania?

A. This is a fact which existed, so far as our information, that the metered service was then and continues to be used by all the Philadelphia banks. This would not represent a change.

Q. Will you read the last sentence of that paragraph and tell me what you understood him to mean by that sentence.

A. "It is probably good politics to keep the maintenance charge where it is, at least for the time being."

[fol. 1740] Q. And what did you understand him to mean by that?

A. He participated in the Philadelphia National Bank's analysis and investigation of its costs and service charges. He was familiar with the cost developed in that, and he had undoubtedly a feeling that these costs were less than he thought appropriate and wondered whether or not—I think a normal one—how long can we continue a particular set of prices against the cost of doing business.

Q. Did he also indicate that he considered the charge for cashing checks a double charge?

A. This is an error of interpretation, and the comments in pencil on the side, which I am sure are illegible——

Q. They are, indeed.

A. This referred to an analysis charge to certain large industrial accounts for the service offered. It was not a charge made against the individual people who might come in and cash checks, that kind of thing.

Q. So that his conclusion as expressed in this paragraph is inaccurate?

A. I think that is correct.

Mr. Reycraft: Will you mark as Government's Exhibit [fol. 1741] No. 106 a one-page memorandum dated January 5, 1961, from Willard M. Bickel to Ellis Ridgway.

(One-page memorandum dated January 5, 1961, from Willard M. Bickel to Ellis Ridgway, was marked Exhibit G-106 for identification.)

By Mr. Reycraft:

Q. Mr. Ridgway, this is a very brief document. Would you read it.

A. "I am returning the application for approval to merge. Mr. Erb and I have reviewed the application, especially the part pertaining to the proposed service charges on Regular and Special Checking Accounts. We

both feel that it would be rather difficult to adopt all of these charges in this area in as much as we have recently increased our charges and are now on a competitive basis with the Pottstown Banks. However, we have competition with the surrounding banks in the area where little or no service charges are used. We have lost several accounts to them. We feel that we cannot make these adjustments at this time. We are always willing to cooperate wherever we possibly can but feel that some of these changes would be rather difficult to explain to our customers at this time.

[fol. 1742] "Thank you for giving us the opportunity to review the enclosed application."

Q. Mr. Ridgway, what did you understand Mr. Bickel to mean by his statement that you are now on a competitive basis with the Pottstown banks?

A. The service charge schedule on a per item charge basis is not identical with any bank. The maintenance charge is different than the main office one. The earnings credit is somewhat different, although they have a charge which, on accounts in the area, they believe is reasonably competitive—it might be over or below—and therefore they feel that they are in about the right position to serve the public and to live with the service charge schedule they have.

Q. Did you understand it to mean that they were approximately the same as the Pottstown banks?

A. On balance, I think that is correct,

Q. And this is what he meant by being on a competitive basis?

A. That is right.

Mr. Reycraft: Will you mark as Government's Exhibit No. 107 a one-page memorandum dated January 12, 1961, from Mr. Alan Resendorph, Assistant Vice President, Hatboro office, to Mr. Ellis Ridgway, Jr., vice president.

[fol. 1743] (One-page memorandum dated January 12, 1961, from Mr. Alan Resendorph, assistant vice president, Hatboro office, to Mr. Ellis Ridgway, Jr., vice president, was marked Exhibit No. G-107 for identification.)

By Mr. Reycraft:

Q. Mr. Ridgway, referring to Government's Exhibit No. 107, what does the exhibit indicate with reference to the service charge in effect at the Huntingdon Valley office?

A. "The nearby Huntingdon Valley Office has been using the First Pennsylvania main office charge. The manager informs me that they had reaction and loss of accounts when first put into effect. That has since disappeared and the charge is working out satisfactorily in the community. Their charge is very much like our proposal."

Q. Whose office is the Huntingdon Valley office?

A. First Pennsylvania Company for Banking and Trusts.

Q. And does this indicate to you that there was an increase in the service charges of that office?

A. That indicates that there was.

Q. And what did the report of Mr. Resendorph to you indicate with reference to the comparison of your bank service charges with the Bank of Old York Road and [fol. 1744] Doylestown National?

A. "Sample account comparisons with Bank of Old York Road and Doylestown National indicate that our charges will be relatively hight. Neither bank is at this time considering any changes in their program. Consequently, we will have some attrition when the change occurs because their charges will be lower than ours."

Q. Does the memorandum also indicate there was an increase in your charges in March of 1958?

A. It does.

Q. And does it indicate that a loss in accounts of about $200,000 might be anticipated?

A. It does.

Q. And what is the conclusion of this memorandum as indicated in the last paragraph?

A. "However, I must point out our charges will automatically work to our disadvantage in getting new business. The present lower charges of our two competitors has already been a problem in that regard. With our charges going up and theirs remaining the same this will continue to be a problem in our business development program."

The Court: I think it is close enough to 12:30 to recess.

[fol. 1745] (Recess taken at 12:28 P.M. until 2:00 o'clock P.M.)

[fol. 1746] [File endorsement omitted]

AFTERNOON SESSION

Present: Counsel as before noted.

PLAINTIFF'S EVIDENCE (Resumed)

ELLIS B. RIDGWAY, JR., resumed.

By Mr. Reycraft:

Q. Mr. Ridgway, have you been able to obtain copies of the service charges at the branches which I requested of you?

A. The material is being prepared and I don't know whether it has arrived yet or not, sir.

Mr. Reycraft: All right. Will you mark as Government Exhibit 108 a document which has just been handed to me, headed "P. N. B. Special Checking Account Charges and Procedures."

(Document entitled "P. N. B. Special Checking Account Charges and Procedures," was marked G-108 for identification.)

Mr. Reycraft: And as Government's Exhibit 109, a document which consists of two pages joined together by [fol. 1747] Scotch tape, with various columns, one of which is rates, another policies and procedures, and columns for rates at Chester, Pottstown, Hatboro, Lansdale, Norristown, and Bristol.

(Document of tabulations of service charges was marked Exhibit G-109 for identification.)

Mr. Reycraft: I would like to study these documents before examining you on them, Mr. Ridgway.

Will you mark as Government's Exhibit No. 110 a one-page memorandum from Mr. Harold K. Koch to Ellis B. Ridgway, Jr., dated January 13, 1961.

(Memorandum dated January 13, 1961, from Harold K. Koch to Ellis B. Ridgway, Jr. was marked Exhibit G-110 for identification.)

The Court: Were those other two documents marked 108 and 109?

Mr. Reycraft: Yes, sir; we will have copies.

The Court: They were the schedules of charges?

Mr. Reycraft: Yes, sir.

The Court: All right.

By Mr. Reycraft:

Q. Mr. Ridgway, referring to Government's Exhibit No. 110, which contains Mr. Harold Koch's recommendations to you, would you read the last two paragraphs of this document?

[fol. 1748] A. "The timing of effecting increased service charges could be very important. If an increased set of charges should become operative immediately after the merger, it might be that the average person would blame it on the merger rather than understand it as a natural increase due to increased costs.

"Concerning our recent telephone conversation—it would seem proper to be mindful of our area competition when considering an increased service charge schedule. A satisfactory solution regarding the matter discussed would assist us very greatly. Even so, the influence exerted by our competition in the peripheral area (such as Chalfont, Harleysville and Souderton) could affect a number of our customers."

Q. Mr. Ridgway, what competition is referred to in this memorandum, as you understood it?

A. As I understood it, Mr. Koch was a strong proponent of our present service-charge arrangement, that is, the full analysis of accounts rather than a metered basis; and he felt in his mind, contrary to many, as is described in his first paragraph, that the metered charge would be difficult.

It is my recollection—this goes back, you see, some time —that he would like to see our present arrangements [fol. 1749] continued.

Now, whether that would happen or not, I was not able to say, but he spoke again to his very strong conviction as to method, as I recall it. I don't remember all that occurred in that conversation.

Q. Now, in referring to area competition, was he referring to other banks in the area?

A. I think so. That's my recollection, that he was referring to bank competition.

Q. Which banks did you understand to be the area competition?

A. I will have to think a minute.

In addition to those mentioned would be Peoples National Bank of Norristown, which has a number of offices throughout Montgomery County, Montgomery County Bank & Trust, and there is a bank in Hatfield, it is my recollection.

Q. The reference to "the influence exerted by our competition," does this mean influence of service rates on, for example, taking customers away from you?

A. Would you repeat that question, please?

Mr. Reycraft: Yes. Would you read it, please?

(The pending question was repeated by the reporter.)

The witness: I think that's in connection with deposit [fol. 1750] customers, and competition covers the whole broad area of commercial banking in the broad sense.

By Mr. Reycraft:

Q. Did you understand this to mean that the proposed increase in service charges might result in the competition taking away some of your customers?

A. I think that's entirely possible.

Q. And this was your understanding?

A. Yes.

Mr. Reycraft: Will you mark as Government's Exhibit No. 111 a two-page document from Carl Holtby to Ellis B. Ridgway, Jr., subject: Merger Application and Service Charges."

(Two-page memorandum dated January 27, 1961, from Carl Holtby to Ellis B. Ridgway, Jr., was marked Exhibit G-111 for identification.)

By Mr. Reycraft:

Q. Mr. Ridgway, referring to Government's Exhibit No. 111, the document refers to shoppers. Can you tell me what you understood that term to mean?

A. Those people customers who inquire about our services and the price or cost of our service to the customer.

Q. These are people who look for the lowest-available service charge?

[fol. 1751] A. Some of them would be.

Q. And that is your understanding of what the term meant?

A. Some of them would be that.

Q. And that is your understanding of what the term meant?

A. Yes.

Q. What does the memorandum indicate with reference to the relationship between your new service charges and those of your local competitors?

A. Do you have reference to a particular part? I haven't read it.

Q. Well, the last sentence in the second paragraph.

A. Mr. Holtby, as a manager, takes the opposite view from Mr. Koch that I just reported. After having spoken to the shoppers, there were times when he would lose potential accounts because of the size and complexity of our service-charge program.

> "Although these situations have been very infrequent of late, nevertheless, I think the new plan will be more easily explained to the layman and although it is not as inexpensive as our local competitor's, it seems close enough to be competitive."

Q. What does the memorandum indicate with reference to the charges for miscellaneous services, such as certification, stop payments, and so forth?

[fol. 1752] A. "I am a little bit concerned with the substantial increase in charges for certain of the miscellaneous

services such as certifications, stop payments, etc. I wonder if we are actually obliged to mention these costs when the services are requested? The only other item in the regular checking program that gives me some concern, and it always has, is the cost of our deposit tickets (10 cts). In looking over all the other banks listed, I could not find one whose item charge was as high. Frankly, I think this is oftentimes the most difficult cost to substantiate to a prospective customer. Also, I am curious to know if company accounts under $500 would be analyzed on our present plan or in the same fashion as the proposed individual account analysis. I know it is difficult for the center city banker to realize it but we do have such company accounts although, fortunately, they are not numerous."

Q. This refers to commercial accounts under $500; is that correct?

A. That's right.

Q. Now will you continue and tell us what the memorandum indicates with reference to the comparison with the Girard Bank?

[fol. 1753] A. "I am pleased that we will retain our program for special checking accounts, but suspect that due to our proximity to several offices of the Girard Bank, some questions may arise as to the monthly maintenance fee discrepancy (25 cts.—50 cts.). Might I assume that we would just go ahead and transfer such accounts to this office . . ."

And then my copy becomes illegible.

Q. So does mine.

Mr. Littleton: The word "just" is here.

The Witness: I am sorry; many other words are illegible as well.

By Mr. Littleton:

Q. Do you mean that you don't have the next page?

A. It's illegible.

Mr. Reycraft: I can complete the sentence—". . . just as if they were coming from another bank if the question arises?"

The Court: ". . . the question is raised?" it says on my copy.

Mr. Littleton: Raised.

The Witness: This copy is sufficiently legible, I believe.

Mr. Reycraft: If the question is raised?

[fol. 1754] Mr. Littleton: That is what it is.

The Witness: Coming from another bank if the question is raised.

Mr. Reycraft: May I examine that?

By Mr. Reycraft:

Q. I think it might be best if you read it into the record, since the other copies are illegible.

A. Reading:

"We have on a number of occasions heard comments concerning Girard's special checking 'cardboard check' and I am glad that we will not have to use it for our accounts. I don't believe it has been well accepted in this area. I assume also that we will be given the necessary supplies for the Girard special checking accounts so that their customers in this area can be accommodated. It would be my hope, too, that eventually this difference would be resolved so that a uniform package would be offered in the area. I know from experience that even out here we did have some problems after the Gimbel Bank merger in supplying folks with the proper deposit tickets and checkbook styles."

[fol. 1755] Mr. Reycraft: Will you mark as Government's Exhibit No. 112 a one-page document dated February 1, 1961, from J. M. Minster to Mr. Ellis B. Ridgway.

(One-page document dated February 1, 1961, from J. M. Minster to Mr. Ellis B. Ridgway, was marked Exhibit G-112 for identification.)

Q. Mr. Ridgway, with reference to Government's Exhibit No. 112, will you just read the last paragraph.

A. "If the increases proposed became effective in my area as of now or after merger, I cannot see anything but an improvement. I personally have never felt that our approach to 'eliminating' constant offenders was equal to that of our competitors who simply will not tolerate any deviation from sound banking procedures."

Q. This has reference to the increase in charges for uncollected, post dated, and so forth?

A. This has to do with are often referred to as the penalty charges, which, of course, are not substantial in number within our own bank's operation.

Mr. Reycraft: Will you mark as Government's Exhibit No. 113 a two-page document dated January 16, 1961, from Cliff Gillam in Montgomery to Ellis Ridgway.

(Two-page document dated January 16, 1961, from Cliff [fol. 1756] Gillam in Montgomery to Ellis Ridgway, was marked Exhibit G-113 for identification.)

Q. Returning for the moment to Government's Exhibit No. 112, Mr. Ridgway, by eliminating constant offenders what did you understand Mr. Minster to mean?

A. Those who continually overdraw their account or otherwise do things with their checking account that we would prefer that they not do, and they offend normal banking practice and should be penalized.

Q. Referring to Government's Exhibit No. 113, this appears to be a report from Mr. Gillam to you in which he tells you about conversations he has had with other banks concerning service charges. Would you read the first two paragraphs of that memorandum.

A. "We have reviewed the proposed service charge schedule for the merged bank and have also sounded out the other banks in a very p--liminary way on the likelihood of an adjusting service charge schedules upwards.

"I believe the Montgomery County Bank and Trust Co. would look with favor upon a revision of Regular Checking Account charges and the officer in charge of their operations at the present time is thinking of a $1.00 maintenance charge, a charge of 5 cents per item drawn and deposited and an earnings credit of 15 cents per hundred of collected [fol. 1757] balance per month. This is his thinking and has not progressed much further than that, I don't think. He feels that the Special Checking charge of 10 cents per check when posted and a 25 cents maintenance charge are about right, however, and it is doubtful whether they would want to make any changes in this schedule. Their charges on Regular Checking Accouns are now somewhat higher than ours in as much as they apply a 10 cent per month earnings

credit less reserve and float and als. they use the lower balance rather than the average balance for small personal checking accounts."

And then there is a reference here:

"Our earnings credit is 10 cents per hundred per month on the gross average balance."

"Their item charge is 4 cents for items drawn and deposited at present (same as ours.)"

Q. What does the memorandum indicate with reference to Mr. Gillam's conversation with the personnel at the Peoples Bank?

A. "The attitude of the Peoples Bank is somewhat hard to determine but I gather that they will not be thinking in terms of revision in charges until at least the latter part of this year, however, they are now charging five cents an item deposited or drawn compared to 4 cents for ourselves [fol. 1758] and Montgomery County Bank and Trust Co. so that their charges are already somewhat above ours. On their Special Checking Accounts, they sell checks for 10 cents each with a 25 cent maintenance charge."

Q. And in Mr. Gillam's recommendations what does he indicate with reference to his competitive disadvantage of increasing maintenance charge?

A. "Special Checking—We would like to keep our present Special Checking Account service charge schedule of 25 cents per month maintenance charge plus 10 cents charge per check. We feel we would be under a real competitive disadvantage if we raised our maintenance charge to 50 cents. We would be satisfied to sell checks for 8 cents and 10 cents as Girard does so long as we could keep a 25 cents maintenance charge. If it is necessary to go to a 50 cent maintenance charge, we would then prefer to sell checks at 8 cents and 10 cents each rather than to post a 10 cent charge against the account. The reason for this is that the 'thrifty fifty' package would give us an offset to our higher maintenance charge until such time as the local competitors come into line. We do not believe that it would be wise for the merged bank to have two separate schedules for Special Checking Accounts."

Q. Mr. Ridgway, do you know the identity of any other [fol. 1759] banks with whom Mr. Gillam discussed these service charges?

A. I do not.

Q. Are these the only two banks in his immediate area?

A. No.

Q. What other banks are in that area?

A. Bridgeport National Bank is just across the river. That would be the only commercial bank in his general trade area, except First Pennsylvania Company, which has applied for an office. To the best of my recollection, that would be commercial banks involved.

Q. Do you know the identity of the officer in charge referred to at the Montgomery County Bank and Trust Company?

A. I can't recall.

Q. Did you make any report to any of your immediate superiors on any of these recommendations other than that which is contained in your covering memorandum to which we have previously referred?

Mr. Littleton: G-102, you mean?

Mr. Reycraft: Yes, G-102.

A. I don't remember any other report.

Q. Were you surprised that Mr. Gillam would discuss service charges with his competitors in the area?

[fol. 1760] A. No.

Q. Is this the usual practice?

A. I think the manner and the extent to which he discussed it, I think this is pretty good competitive banking if he tries to find out, not only what is going on, which is general information through published schedules, but try to find out what is going to happen. I don't think there is any indication here that he has been able to control it in the past or is apt to be able to control it in the future. I would not criticize him for not having made this kind of inquiry.

Q. You don't think it is unusual for him to sound out the other banks on the likelihood of adjusting service charge schedules upward?

Mr. Littleton: What do you mean, unusual for him?

Mr. Reycraft: Do you understand what I mean?

The Witness: Would you define it, please. Would you define what you mean by unusual?

By Mr. Reycraft:

Q. Did it ever happen before, to your knowledge?

A. I can't cite an instance, but I think his approach— [fol. 1761] it could have happened. I know of no specific instance.

Mr. Reycraft: Will you mark as Government's Exhibit No. 114 a three-page document. The first page is entitled "Survey of Service Charges and Interest Rates on Assigned Accounts Receivable," and at the bottom appears the date April, 1956. At the bottom of the second page appears a name which looks to me like Heebner and the initials VR, and on the third page at the bottom a name which appears also to be Mr. Heebner's name.

(Three-page document, first page entitled "Survey of Service Charges and Interest Rates on Assigned Accounts Receivable," was marked Exhibit G-114 for identification.)

By Mr. Reycraft:

Q. Mr. Ridgway, have you ever seen Government's Exhibit 114 prior to the time I handed it to you?

A. I have.

Q. When did you first see it?

A. I can't answer that. It has been within the past few days, but I don't know the date.

Q. You had not seen it prior to that time?

A. No, I had not.

Q. Had it been shown to you by your attorneys prior [fol. 1762] to that time?

A. I have never seen it until the past day or so.

Q. Do you know who made this survey?

A. The name, referring to the person who signed it?

Q. Yes.

A. Heebner is a member of our staff, A. Gilbert Heebner.

Q. And you have had no knowledge of the fact that a survey had been made prior to the time this document was handed to you?

A. That is correct.

Q. Do you have any knowledge of any other surveys made by your bank on service charges?

A. The rather complete study made by a committee appointed by the management of our bank in the fall of 1959 is known to me.

Q. Was this a study of only your bank service charges or of service charges of other banks in the area?

A. It was a service charge study of our bank, the services we rendered, how best to market those, a study of whether or not our costs for service were somewhat in line with whatever increases there had been by specific items, and we [fol. 1763] naturally sought information about our competitors through whatever means were available, published schedules, to make comparisons. That was begun in 1959, September, as I recall it.

Q. And as to which of your competitors did your bank obtain this information?

A. We developed information from all of our competitors, commercial bank competitors, as I recall it, both in Philadelphia and the peripheral areas.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 115 a six-page document. The covering page is headed "Exhibit I, Survey of Branch Area Competition."

(Six-page document headed "Exhibit I, Survey of Branch Area Competition" was marked Exhibit G-115 for identification.)

Q. Mr. Ridgway, do you recognize Government's Exhibit No. 115?

A. I do.

Q. Is this the survey to which you referred?

A. This is part of the survey.

Q. What else was included in the survey with which you are familiar?

A. The Committee's report. There were exhibits, of which this is one of several exhibits to that survey and [fol. 1764] study of our full service we render and the charges that we make, and that kind of thing, how best to market it.

Q. Do you know who made this survey?
A. You are referring now just to Exhibit I?
Q. I am referring to Exhibit I, right.

Mr. Littleton: G what?
Mr. Reycraft: G-115.

A. This was prepared by several members of the bank's operations and cost accounting division, as I recall it. There are initials on one page which I can't read, which might be helpful for a section of it.

Q. I believe it is RLC. Do you know a person named RLC?

A. I do. That is Richard L. Carter, a member of my staff.

Q. Can you explain the competitive account analysis which appears beginning on the second page of Government's Exhibit No. 115?

A. I can describe it but not explain the details. Is that a fair answer to your question?

Q. Well, what do you understand the words "Old" and "New" to mean as they appear after each account.

A. This survey took specific accounts of our banks, [fol. 1765] and they were analyzed so that we would have a specific number of items. I have referred earlier to deposit items, checks drawn, and average balance with which to work. This "Analysis" took several of such accounts, applied the proposed service charge schedule for the Philadelphia National Bank—which was developed prior to the merger matter, which delayed it—as the "New" schedule of charges suggested in the "Service Charge Analysis" by the Philadelphia Bank, which is the "Old" and the "New" under P.N.B., and then it takes those same accounts and applies the service charges listed for the various other banks on this sheet. Generally these are approximations, because there are some details we may not know, but most banks, including our own, distribute a little pamphlet which tells the basic charges used by the banks.

Q. Would I be correct in assuming that each of the accounts listed, the nine accounts, is an account, so far as you know, which is only in the Philadelphia National Bank?

A. That is correct.

Q. And for hypothetical purposes you compared these accounts, the activity in these accounts, against the service

charges of your other competitors in the area; is that correct?

[fol. 1766] A. That is correct.

Q. Will you tell me what the conclusion was with reference to the effect on the charges made against the first account you indicated?

A. You mean the conclusion or to report the statistics here, sir?

Q. The statistics.

A. "B.D.P.C. Sunshine, old, 92 cents, new, 1.45."

Q. Mr. Ridgway, it isn't necessary for you to mention the name of the account. Just say the first and second account. As to to the second account?

A. 1.17 old, 1.73 new.

Q. And the third account?

A. 2.80 old, 3.67 new.

Q. And the fourth account?

A. 13 cents old, 1.77 new.

Q. And the fifth account?

A. 19.93 old, 25.90, or zero, I can't be sure now.

Q. And the sixth account?

A. None and none.

Q. And the seventh account?

A. 1.70 old, 2.46 new.

Q. And the eighth account?

A. .49 old, 1.01 new.

[fol. 1767] Q. And the ninth account?

A. 25 cents old, 85 cents new.

Q. Now, referring to the first account indicated, can you tell me whether the new charge is lower than that of any of your competitors as indicated by the exhibit?

A. It is not lower than any.

Q. Will you refer also to the second page.

A. The second page?

Q. The next page lists other competitor banks.

A. No, there are none lower.

Q. So that with respect to the comparison of this account with all competitive banks in the area, the new charge would be the highest for Philadelphia National Bank; is that true?

A. That is correct.

Q. Will you refer to the second account and tell me how the charges compare with those of your competitor banks.

A. The old charge is lower than three. The new charge is higher than all of them.

[fol. 1768] Q. And the third account?

A. $2.44. I have an illegible figure on the last column on the first page. Can you tell me what that is?

Q. It looks like $1.20 and $1.30.

Mr. Reycraft: $1.30 as to the third account; will you confirm that?

Mr. Littleton: It is illegible here, too.

The Witness: It looks like the old charge is lower than two; the new charge is higher than all of them.

By Mr. Reycraft:

Q. And the fourth account?

A. It looks like the old charge is lower than two; and new charge is higher than all of them.

Q. And the fifth account?

A. The old charge is lower than three, as I count it. The new charge is higher than—I have a figure, the last figure on the last column in the upper section of page 2. Could you help me with that figure, sir? Is it 28 or 23, sir?

Q. It looks like $23.30 to me.

A. O.K. Then it is just about equal to one and higher than the rest.

Q. All right.

With reference to the sixth account, what is indicated?

[fol. 1769] A. (No response.)

Q. It appears that there is no charge in any of them; is that correct?

A. We were the same as the others.

Q. In the seventh account?

A. It looks like the old charge is lower than two; the new charge is higher than the others.

Q. Than all the others?

A. Than all the others.

Q. And with reference to the eighth account?

A. It looks like on the old charges we were lower than nine; on the new charges, we are about the same as eight and higher than the others.

Q. And as to those eight, you are about 1 cent higher; is that correct?

A. 1 cent. I said about the same, about a penny difference.

Q. And as to the ninth account?

A. On the old charge we would be the same as one and higher than the others; on the new charge——

Q. Higher than all the others on the new charge?

A. All of them.

Q. Now the next page of Government's Exhibit 115 is headed "Analysis Survey of Philadelphia Banks."

[fol. 1770] Can you explain what an analysis survey is?

A. An analysis survey would be the report that is before you, which attempts to put side by side or one over the other the charges of our competitor banks, that is, to the extent that we able to get the information; and so we know where we fit into the picture competitively.

Q. Where did the survey indicate you fitted in competively with reference to monthly maintenance charges?

A. It indicates that we are lower than one, the same as one other, and higher than the balance of the banks reported on.

Q. I believe, sir, that when you said you are the same as one other, that means that you are the same as the Girard?

A. That is correct.

Q. And with reference to the minimum amount charges, what did the survey indicate?

A. It looks like all of the banks but one have a minimum charge of either 25 cents or 26 cents, I think, with the exception of one.

Q. The only one higher would be the Girard; is that right?

A. That is correct.

Mr. Reycraft: I have no more questions.

[fol. 1771] Cross-examination.

By Mr. Littleton:

Q. Mr. Ridgway, during the course of his examination of you Mr. Reycraft asked you what the word "shoppers" meant as used by one of the branch managers in reporting

to you and I understood you to say that shoppers were people who went around ascertaining fro each bank what their service charges were; is that correct?

A. Those that come in to us inquiring would be such; that is right.

Q. In other words, a person can go around to a bank and find out what the service charges are without any difficulty, can he not?

A. They can inquire with great ease.

Q. Yes. There is no mystery or secret about service charges?

A. There is no mystery.

Q. As a matter of fact, will you look at G-57, what the Department of Justice has marked G-57, being the application for approval to merge, and will you turn to page 104?

A. I have it, sir.

Q. You will see that that is headed "Exhibit G."

Will you read what the comptroller's form says Exhibit G is to show?

[fol. 1772] A. Exhibit G. Schedule showing interest rates and service charges on loans and deposits of each of the participating banks and the proposed interest rate and service charges proposed for the resulting bank in relation to such rates and charges of other competing commercial banks and financial institutions.

Q. So that the Comptrollerof the Currency requires you to find out and report to him the charges of other competing commercial banks and financial institutions, the service charges; is that correct?

A. That is correct.

Q. Will you turn to page 108 in the same exhibit, which is part of Schedule G. and tell me what it is headed?

A. "Service Charges of Competing Institutions—Competition—Regular Checking."

Q. And the headings of the columns?

A. Balance, Maintenance Charge, Checks Drawn, Checks Deposited, Deposit Tickets, Earnings Credit Per $100.

Q. And there follows on that page and the next three pages the service charges of how many other banks, that

is, banks other than Philadelphia National Bank and Girard Trust Corn Exchange Bank?

A. I have counted seventeen.

Q. Seventeen?

[fol. 1773] Now, these reports that various heads of branch offices of Philadelphia National Bank sent in to you, which have been marked G-103 to G-113, inclusive, reported in part on what banks in the area were charging for service charges, did they not?

A. That is correct.

Q. Did they not?

A. That is correct.

Q. And as I understand it, you were endeavoring to ascertain from your various branch or regional managers what their reaction was to the service charges proposed by the merger application; is that correct?

A. That is correct.

Q. And they were ascertaining, among other things, what their competitors were charging for service charges in order that they would properly predicate their opinion on information; isn't that correct?

A. That is correct.

Q. And that is what they did?

A. They did.

Q. And their opinions varied a great deal, didn't they?

A. They did.

Q. Now will you look at G-105?

A. I have it.

[fol. 1774] Q. That is a report Frank Dyer made to you, is it not?

That is right.

Q. And he says in the second paragraph of that report:

> "The increase in maintenance charge follows the proposal made by the Service Charge Committee in which we both participated."

Right?

A. That's right.

Q. What was the Service Charge Committee in which you and Frank Dyer both participated?

A. This is the committee I referred to briefly earlier, appointed by the president of our bank in the fall of 1959.

Q. Let me ask you right there, had this anything to do with the merger?

A. It had nothing to do with the merger.

Q. When had the Philadelphia National Bank last made a change in its service charges?

A. The last change by the Philadelphia National Bank generally was in 1956.

Q. In other words, there were four years when there hadn't been any change and the president appointed a committee for what purpose?

A. The committee was appointed to study what we were offering in the way of services; and there are a great many [fol. 1775] things that go into the checking-account service, for which we, incidentally, don't put any account analysis, counseling, the so-called management end of it, to appraise what were were doing to consider merchandising, the merchandising aspect of it, and to consider whether or not the costs and the services by, I will say departments—there were various kinds of charges, various kinds of—various special sections—as to whether there seemed to be some reasonable balance between the cost of these services and our then charges.

Q. And this committee comprised of you two gentlemen and a number of other officers of the Philadelphia National Bank, did it not?

A. There were representatives of what I could call the major divisions of the bank.

Q. You were reviewing this whole subject of, service charges?

A. That is correct.

Q. Among other things, what they should be, if they should be different in any respect from what then existed?

A. That was part of this assignment.

Q. Did that committee make a report?

A. It made a report.

Q. Did that report ever become effective?

A. It never become effective.

[fol. 1776] Q. Why not?

A. The merger——

Q. Supervened, I think the word is, isn't it?

A. Whatever the proper word is, those of that were on the committee wondered why nothing seemed to happen to our report.

At some long—some several months later we then had an idea why it had been delayed, and it seemed perfectly reasonable.

Q. Now, to use Mr. Reycraft's expression, "over-all and generally," did the report of that committee recommend increases in service charges which were greater or less than the application for merger has indicated the change in service charges would be?

A. Within that meaning, the recommendations of our committee were greater than those those in the merger proposal.

Q. Now, if you will turn your attention, please, to G-115, which the last document or schedule to which Mr. Reycraft was addressing your attention, this competitive analysis, do you have it?

A. Exhibit 115?

Q. 115, yes.

A. All right.

Q. If you will look at the first page, when you take a [fol. 1777] number of selected or random accounts and apply what you called the old and new PNB to such accounts, as well as the schedule of service charges of other banks, will you tell me what "old PNB" means?

A. "Old PNB" is the service-charge schedule that was in existence prior to the appointment of this committee, and which generally continued after its appointment.

Q. What does "PNB new" mean?

A. That is a schedule proposed—recommended by the Service Charge Committee appointed in the fall of '59.

Q. And this has nothing to do with the merger or the schedule of service charges appearing in the application for merger, does it?

A. It has not, nothing to do with it.

Q. It has only to do with this report that never was acted upon?

A. That is correct.

Q. And do I understand that those so-called new rates are actually not in effect now at all and never have been in effect?

A. That is correct?

Q. Now will you look at G-112?

A. I did not have G-112.

I have it.

[fol. 1778]. Q. This, Mr. Ridgway, is the comment on proposed service-charge program of J. M. Minster to you dated February 1, 1961.

Mr. Reycraft got you to read part of that. Will you now read paragraph 5 of that?

A. "I believe the increases will help produce the income to offset the staggering increase in costs. To me banks generally have failed to adopt a realistic approach to demanding a fair price for very important service. I also feel that with the increase in personal incomes over the last 10 years that now is the time to 'sell' increases for services. We complain about——"

Q. Who complains?

A. "Who complains about tax increases on entertainment, gas, jewelry? Why can't service charges be presented and considered in the light of 'if you want it, pay for it' and make everybody want it as an accepted and necessary quality item."

The Court: Let's take our ten-minute break at this point.

(A recess was had.)

By Mr. Littleton:

Q. Do you still have G-112 before you?

[fol. 1779] A. I have it.

Q. That is Mr. Minster's comment to you on a proposed service charge program.

Will you read us paragraph 4 of that comment?

A. "All of the increases will help 'discipline' customers who habitually keep poor account records and who in my opinion deserve to be labeled 'delinquents.' An account in balance is certainly a step in the 'quality' direction and I am in favor of adopting any service charge procedure that will 'discipline' or eliminate undesirable business. Bad apples make lousy pies."

Q. Thank you.

Will you now turn your attention for a moment to G-111?

A. I do not have G-111.

I have it now.

Q. This is the report of Mr. Holtby to you dated January 27, 1961, on the subject, "Merger Application and Service Charges."

Mr. Reycraft had you read a paragraph at the bottom of that first page:

> "I am pleased that we will retain our program for special checking accounts, but suspect that due to our proximity to several offices of the Girard Bank, some [fol. 1780] questions may arise as to the monthly maintenance fee discrepancy (25 cents—50 cents)."

Now, I presume by "Girard Bank" he means Girard Trust Corn Exchange Bank, does he not?

A. That is correct.

Q. Will you tell us, what is the nearest office of the Girard Trust Corn Exchange Bank to Mr. Holtby's Ardmore branch?

A. It's more than a mile east of us.

Q. That is the one in Wynnewood?

A. In Wynnewood.

Q. And that is more than a mile to the east; and doesn't the main line of the Pennsylvania Railroad run in between the two banks?

A. It does.

Q. And the next nearest is where? Down in Narberth?

A. Narberth would be even further away.

Q. That's over two miles down to there?

A. Two miles or more.

Q. Do you know from what areas the Ardmore branch draws its business?

A. It is my recollection in discussing this with Carl, as we do from time to time, and it came up in connection with the merger, that no more than 10 per cent and probably less [fol. 1781] than 10 per cent of his business comes from the eastern area.

Q. From east of the Ardmore branch?

A. East of Ardmore; that our preponderance, great preponderence of business is in the direction of Bryn Mawr and the West, perhaps a mile south of our location in Ard-

more, and then north to the river, which might run as long as three miles.

Q. Over towards Gladwyne and so on?

A. Yes. It's rather sparsely settled, but it is in that direction.

Mr. Littleton: Thank you very much. That's all.

Mr. Reycraft: Mr. Price?

Mr. Price: No questions.

Direct Examination. (Resumed)

By Mr. Reycraft:

Q. Mr. Ridgway, you were asked by Mr. Littleton about the first sentence of Government's Exhibit No. 113, which reads:

> "We have reviewed the proposed service charge schedule for the merged bank and have also sounded out the other banks in a very preliminary way on the likelihood of adjusting service charge schedules upwards."

[fol. 1782] Now Mr. Littleton asked you if it was not possible for shoppers to learn the service charges of other banks, and you answered that it was; is that correct?

A. That is correct.

Q. Have you ever observed or have any of your branch managers every reported to you that some of these shoppers that have been referred to have sounded out banks on the likelihood of adjusting service-charge schedules upwards?

A. The answer is no, as I understand it.

Q. That would be unusual, wouldn't it?

A. That's right.

Q. Mr. Littleton also asked you about the application which was filed with the Comptroller, which refers to service charges of other banks. The Comptroller has never suggested, so far as you know, or his office, that you sound out other banks on the likelihood of adjusting service-schedule charges upwards, has he?

A. Not to my knowledge.

Q. That would be surprising, too, wouldn't it?

A. (No response.)
Q. Pardon me. Did you answer the question?
A. I thought you made a statement.

Mr. Littleton: He did make a statement.
Mr. Reycraft: Will you read the question I asked?

[fol. 1783] (The testimony was repeated by the reporter as follows:

"Q. Mr. Littleton also asked you about the application which was filed with the Comptroller, which refers to service charges of other banks. The Comptroller has never suggested, so fas as you know, or his office, that you sound out other banks on the likelihood of adjusting service-schedule charges upwards, has he?
"A. Not to my knowledge.
"Q. That would be surprising, too, wouldn't it")

The Witness: I didn't understand the "wouldn't." I am sorry.

By Mr. Reycraft:

Q. What is your answer?
A. The answer is yes; yes, it would be unusual.
[fol. 1784] Q. Is it a fact also that the date of this memorandum, January 16, 1961, is after the application was filed with the Comptroller's office?
A. Yes.
Q. So there wasn't any necessity, was there, for Mr. Gillam to make these inquiries in order to obtain the information for the application?
A. That is correct.
Q. It is correct that there was no necessity?
A. That is right.

Mr. Reycraft: I would just like to observe for the record that, with reference to Government's Exhibit No. 101—G-101 is the memorandum of January 3, 1961, to which is attached a schedule headed "Exhibit G"—that my associates examined this document on May 5, 1961, at the offices of Philadelphia National Bank, and that the copy I have in my hand is a copy which was furnished to us by the bank on May 19, 1961, and contained what appeared to be, may

have been in the original, ink or pencil changes in the charges for returns and stop payments, which appear to range in figures from $2 to $3, and I wonder, Mr. Littleton, if we could have the original of this document for the record and whether you could ascertain who made these changes. [fol. 1785] Mr. Littleton: I will try to ascertain it, and at the same time you can do it. In your exhibit—I am observing this for the record—in your Exhibit G-57, which you had so marked, on the basis of which the witness testified, if you will look at Page 104 there, you will notice that the two figures that come in are each $2.

Mr. Reycraft: I don't dispute that. The question is, who made the changes in the attachment to the memorandum of January 3, 1961?

Mr. Littleton: And if I may observe further, your Exhibit G-45, which you have had marked in this record, gives exactly the same information.

I don't know who made the changes. I was trying to find out when I was questioning the witness. I will try to find out, and I suggest you do the same.

Mr. Reycraft: I suggest that W. R. Byrd, Jr., Mr. C. E. Baus, and J. L. Nungesser, who signed the memorandum, whose typed names appear on the bottom of it, may have that information.

May I also state for the record that Government's Exhibits 108 and 109, which you furnished to us, have penciled [fol. 1786] on them certain charges, certain changes. I think we ought to have the names of the person who made the pencil changes.

Mr. Littleton: May I say to you for the record that these were handed to me immediately before I handed them to you, and I haven't even looked at them before until you showed them to me at this moment; and Mr. Cooper is the one who handed them to me, and he is here, and maybe he can tell you.

For the record also may I state what I said to you privately, and that is that other copies are being made. They had to be made after you requested them before noon, and I hope to have other copies here for the Court and for myself.

Mr. Reycraft: Fine. I just wanted to leave no doubt that the changes were on the documents when I received them.

Your Honor, I had hoped to continue with Mr. Gillam, who is the author of one of the documents, and Mr. Beatty, who is the author of another document. Now Mr. Cooper is here, but I have not had an opportunity to examine and analyze Government's Exhibits 108 and 109, and while I dislike to ask the Court this early, I wonder if it would be convenient if we adjourned.

[fols. 1787-1790] The Court: In the present status of things, I will be happy to.

(Adjourned at 3:35 P.M. until Thursday, June 15, 1961, at 10:00 o'clock A.M.)

[fols. 1791-1792] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

NINTH DAY

Philadelphia, Pa., June 15, 1961

Before Hon. Thomas J. Clary, J.

[fol. 1793] WILLIAM C. MACMILLEN, JR., having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Reveraft:

Q. Mr. MacMillen, what is your present residence?

A. 70 Cedarhurst Avenue, New York, Cedarhurst, New York.

Q. Can you describe your educational background?

A. I attended public schools in Troy, New York, Williams College, Albany Law School.

Q. What has been your business experience, Mr. MacMillen?

A. I was admitted to the Bar in New York State in 1937 or 1938, practiced law in New York State, in Troy, New York, until I went in the Service in 1942. Subsequent to that time, in 1946, I worked for Robert Young in New York. I was president of the Federation for Railway Progress in 1947. I was the Chief Executive Officer of Eagle Line Motion Picture Company in 1948, and became president of a merged company, Eagle Line Classics in 1949. I was president of Chesapeake Industries in 1950. In 1957, I became president of Colonial Trust Company, a commercial bank in New York City, of which I have been a director for [fol. 1794] three years, and last fall I left the bank and I have my own office now at 30 Wall Street for financial and management consulting.

Q. Mr. MacMillen, you say you are associated with Robert Young. Will you tell me who he is.

Mr. Littleton: Who he was.

A. Robert Young was president, was chairman of Allegheny Corporation, chairman of the C. & O. Railroad, chairman of New York Central, among other positions.

Q. What is the Eagle Lion Company you referred to?

A. It was a motion picture company operating in the United States and abroad.

Q. A distributor of motion pictures?

A. It was a producer and distributor.

Q. Will you describe the activities in which Chesapeake Industries engaged.

A. Chesapeake Industries was a holding company, had no operations of its own, but it had wholly owned subsidiaries that totalled some 15 or 20 during the period which I was president, in different industries—banking, public utilities, manufacturing, and so forth.

Q. With reference to the Colonial Trust Company, can you tell me what the progress of that bank was during the time you were chief executive officer of it.

A. Colonial Trust was a bank with assets of under [fol. 1795] a hundred million, a little under a hundred million, and its earnings went from some 400 odd thousand

before taxes in 1956 to; in the last year, 1960, they were running at the rate of $1,200,000 before taxes.

Q. Mr. MacMillen, have you in your industrial and banking experience had experience as a borrower?

A. Yes.

Q. On behalf of some of the companies in which you were interested?

A. Yes.

Q. And in your capacity as an executive with the Colonial Trust Company have you had any responsibilities in connections with loans?

A. Yes.

Q. Will you describe those responsibilities.

A. Well, as the president of the bank I had the primary responsibility for the management of the bank, which included, of course, the loan policies, and I was also chairman of the Credit Committee, which was the operating committee in the bank which passed on loans which exceeded the authority of the branch managers.

Q. How many branches did Colonial have?

A. We had five, including a branch in the main office.

Q. Can you tell me, Mr. MacMillen, what happened to the [fol. 1796] Colonial Trust Company?

A. The stock was sold, or the assets were sold, and the bank was merged into the Meadowbrook National Bank.

Mr. Littleton: You say the stock was sold, then you say the assets were sold.

The Witness: The stock was sold, I believe. I was not a participant in the negotiations.

By Mr. Reycraft:

Q. When did this happen, Mr. MacMillen?

A. In November of last year, 1960.

Q. Did you leave the bank after that time?

A. I did. I left at the end of the year.

Q. Have you had an opportunity as president of the Colonial Trust Company to observe the type of activities in which mutual savings banks engage?

A. Well, in a general way.

Q. Can you tell me what the differences are, if there are any, between commercial banks and mutual savings banks?

A. Well, mutual savings banks are restricted to taking time deposits, whereas a commercial bank, while it does take time deposits, probably two-thirds of its deposits on an average in the country are on demand deposits.

[fol. 1797] From the lending side, the mutual banks, since they have long-term funds in the form of time deposits, make loans of a longer duration than the normal commercial bank.

I think those would be the two primary differences between a savings bank, including a mutual savings bank, and a commercial bank.

Q. What effect does the heavy concentration in demand deposits have on the lending activities of commercial banks?

A. Well, it tends to restrict the loans to shorter term loans, since there is always a chance that there will be a heavy demand from the demand depositors to withdraw their funds, and those funds have to be available.

Q. Can you describe the differences, if there are any, between a commercial bank and a consumer finance company?

A. Well, consumer finance companies, by definition, confine themselves to that general phase of lending, whereas a commercial bank will loan across the whole spectrum of loaning activities. I think that is the primary difference. I would say that some finance companies will take risks which are not of bank quality, but that is not true of all of them. Some of them compete quite directly with banks.

Q. With reference to commercial and industrial loans, [fol. 1798] what is the area of overlap between commercial banks and consumer finance companies?

Mr. Littleton: Where?

Mr. Reycraft: You understand the question?

The Witness: Yes.

Mr. Littleton: Do you mean in New York?

Mr. Reycraft: On the basis of his experience. He has been president of a substantial bank.

A. I would say that there is an area where the quality of the risk is the same, but in large part the risks that are taken by the non-bank lender are of a quality which are not acceptable to a bank.

Q. Is there a difference in the interest rate charged by commercial banks and consumer finance companies?

A. I think that depends on the quality——

Mr. Littleton: If Your Honor please, I object to that, certainly, if he doesn't place it geographically.

By Mr. Reycraft:

Q. With reference to the consumer finance companies, since this is a matter of state law, will you refer to your experience in New York.

A. I think the rate tends to equate with the risk, and [fol. 1799] in those cases where the risk is greater, the rate is higher, and on the average the rate would be higher in the non-banking institutions.

Q. Has it been your experience that commercial banks loan to finance companies?

A. Some commercial banks do, many commercial banks do.

Q. Did your bank do this?

A. Yes, we did.

Q. Can you explain, sir, the distinctions, if there are any, between commercial banks and insurance companies?

A. Well, I think the primary difference is that insurance companies, of course, do not take deposits. On the loaning end, the insurance companies are inclined to make longer term loans than commercial banks and larger loans in size than most commercial banks.

Q. With reference to savings and loan associations, can you describe the difference between these institutions and commercial banks?

A. Well, the savings and loan associations do not take deposits in a technical sense. They do take in funds and give certificates, whereas a commercial bank takes deposits. The savings and loan associations also are inclined to make longer term loans as against the shorter term loans in the banks.

[fol. 1800] Q. Savings and loan associations sell stock, do they not?

A. Yes.

Q. Is this the only form in which they receive deposits?

The Court: Aren't they called shares rather than stock?

The Witness: I think shares, yes.

I can't say if they are the only ones. It is the primary form. In New York it is the primary form.

By Mr. Reycraft:

Q. What are the rights of the share owner with respect to getting back the money which he invested?

A. Well, he has to give notice, and there is a waiting period. That waiting period, again, in New York is customarily waived, so that as a practical matter you can get your money back from a savings and loan association on demand, although that is not the right of the shareholder.

Q. Is there any obligation on the part of the saving and loan association to give the money back on demand?

A. No there is not.

Q. Mr. MacMillen, on the basis of your experience in both banking and industry positions, what is your opinion of the effect of bank mergers on small and intermediate size borrowers?

[fol. 1801] * * * qualified him at all as to the situation in Philadelphia or the surrounding four-county or ten-county area.

Mr. Reycraft: Your Honor, this gentleman has been president of a very substantial bank. He has been chief executive of a holding company which has an interest in companies located in various parts of the United States.

The Court: Has he? It is nice to hear you say so. I haven't heard it.

By Mr. Reycraft:

Q. Mr. MacMillen, you have referred to the fact that you were president of Chesapeake Industries. Will you tell me the names of the companies with which Chesapeake Industries was associated.

A. I can name many of them. I am not sure I can name them all.

Among the companies which Chesapeake owned were Pathe Laboratories, which was a corporation with offices, laboratories, in New York and Los Angeles; Virginia Metal

Products, which is a manufacturer of steel partitions, located in Orange, Virginia; Stanley Greeting Card, which was a greeting card company located in Ohio; Portsmouth Gas Company, which is a public utility in Ohio; Colonial Trust Company, which we have referred to; Television Center, which was a ten-story office building in New York [fol. 1802] City; Cardwell Electronics, which was a New England manufacturer in the electronics industry.

We had some oil and gas properties in West Texas. We operated the Norfolk Terminal for the United States Engineers, through a subsidiary. We had a Dade Trucking Company, which was located in Long Island; the V. D. Anderson Company, which was a manufacturer of heavy machinery in Cleveland. We had a printing company in New York City.

Those are the ones that I recollect.

By the Court:

Q. Do I understand that the Colonial Trust Company was part of that package?

A. Colonial Trust Company was acquired by Chesapeake on January 1, 1955, and was from January 1, 1955, until January 1, 1958.

Q. Was it a wholly owned subsidiary?

A. It was 95 per cent owned.

The Court: All right.

By Mr. Reycraft:

Q. These other companies you have named, Mr. MacMillen, were they all controlled by Chesapeake Industries?

A. They were all wholly owned or virtually wholly owned.

Q. And did you have any duties as president of Chesa- [fol. 1803] peake Industries in connection with arranging the finances of these companies?

A. Yes. It is the primary responsibility of the president of the parent company to see that the subsidiaries were properly financed.

Q. What sources of financing did you have occasion to utilize for these companies?

A. Well, we were a publicly owned company, so we had a preferred and common stock—two preferred issues and a common stock issue—and we used commercial banks in addition.

Q. Mr. MacMillen, returning to my earlier question, what is your opinion of the effect of bank mergers upon small and intermediate size borrowers?

Mr. Littleton: Objected to.

The Court: Overruled. I will hear it.

A. Well, I would say that the elimination of a borrowing source would, of course, tend to restrict the borrower, but the degree of that restriction would depend on the number of other sources available and the quality of those other sources.

[fol. 1804] Q. In your opinion, Mr. MacMillen, based on your observation, what are the areas in which commercial banks compete for the business of borrowers?

A. For large borrowers, I think rate is probably the most important factor. For small or medium-sized borrowers, I would think the availability of funds and the willingness to take the risk would be.

Mr. Littleton: I move that that be stricken as not being responsive to the question. I don't see that it has any reference to the question.

The Witness: I am sorry, what was the question?

The Court: Read the question.

(The question was repeated by the reporter as follows:

"Q. In your opinion, Mr. MacMillen, based on your observation, what are the areas in which commercial banks compete for the business of borrowers?")

The Witness: I think that is the best answer I can give.

By Mr. Reycraft:

Q. Will you explain, Mr. MacMillen, what you mean by a large borrower?

A. I would think someone who was borrowing more than [fol. 1805] a million dollars at a time.

Q. What area would you put an intermediate borrower in?

A. Well, under a million, and, oh, I don't know, let's say over $100,000; something in that area.

Q. And by small you mean under $100,000?

A. Under $100,000.

Q. And you think that for those borrowers under $1,000,000 and availability of alternatives is the most important factor?

A. I would say the availability of alternatives and the willingness of banks to make their funds available.

Q. Has it been your observation that some banks will make a loan which others won't?

A. Oh, yes.

Q. Now with respect to removal of alternatives for borrowers, which you have testified is an important factor, how important is this for a large borrower?

A. Well, these are very general terms, of course, and there would be many exceptions to any answer; but I would say that it would be less important for the large borrower because, generally speaking, the credit of the large borrower would be better established, so that there would be less question about the willingness of a bank to lend the money.

Therefore, the areas of competition would get into the [fol. 1806] question of rate more than in the case of a small borrower, where his credit would probably be the most important factor.

Q. Has it been your observation that it is important to a small borrower to be well known before he can get a loan?

A. Well, it certainly—to be well known is better than not to be; but I wouldn't say that would be necessarily a critical factor.

Q. Is it generally easier for him to get a loan in the area in which he is known, in his home area?

A. I would say it would be easier to get a loan at a place where you were known than at a place where you were not known, certainly.

Q. In your opinion, Mr. MacMillen, what are the other competitive effects which result from a branch-bank merger?

Mr. Littleton: My objection goes to this, if Your Honor please.

The Court: All right.

Read the question back.

(The pending question was repeated by the reporter.)

Mr. Reycraft: No, no, from bank mergers.

The Court: I sustain the objection to the question as framed because I don't think it has any bearing on this [fol. 1807] case.

We are not getting into the category of this case up to now. Let's get into it.

If two country banks are going to merge, that is one thing; but we are talking about two Philadelphia banks. Let's get some testimony on that.

By Mr. Reycraft:

Q. Mr. MacMillen, can you tell me the manner in which banks are regulated, based on your experience?

A. Well, in New York State, a state-chartered bank is regulated by the State Banking Department and if they are a member of the Federal Reserve System they must also comply with the regulations of that system, and if they are a member of the Federal Deposit Insurance Corporation they must comply with the regulations of that system as well.

Q. And what are the primary purposes of these federal regulations?

A. Well, I think to make certain that banks remain solvent.

Q. Now, Mr. MacMillen, based on your experience, what lending limit do you think would be necessary to take care of 90 per cent of the loans which have come to your attention?

Mr. Price: Objected to.

The Court: Read that question back.

(The pending question was repeated by the report-[fol. 1808] er.)

Mr. Littleton: Objection.

The Court: I will sustain the objection to the question as framed. It is strictly a leading question.

By Mr. Reycraft:

Q. Mr. MacMillen, what was the lending limit of your bank?

A. It varied between $500,000 and $600,000.

Q. Were you able to arrange loans in excess of that limit?

A. Yes.

Q. How many?

A. Oh, I don't think I could answer that. I don't think I could answer that.

By Mr. Littleton:

Q. What was your answer?

A. I couldn't answer that. I don't know, I don't know how many.

By Mr. Reycraft:

Q. What is the largest one you can think of?

A. The largest one I can think of offhand is $3,000,000.

Q. And how was that arranged?

A. Through correspondent banks participating with us.

Q. Did you have any difficulty in arranging that loan?

A. No. We didn't have any difficulty in arranging that one.

[fol. 1809] Q. Have you ever had any difficulty in arranging loans in excess of your loan limit?

A. Well, yes, I'd say we have had some difficulty, but I don't remember in any case where we weren't successful.

Q. You were always able to make the arrangements?

A. In every one that I can remember now.

Q. What is the largest loan in which your bank ever participated?

A. Oh, while I was there, $200,000,000.

By Mr. Littleton:

Q. How much?

A. $200,000,000.

Q. 200?

A. Million.

Q. Do you know how many other banks participated in that loan?

A. Oh, it must have been fourteen or fifteen.

Q. Now, on the basis of your experience with industrial corporations, Mr. MacMillen, have you had occasion to arrange loans for those companies?

A. Yes.

Q. And what importance did you attribute at that time to the lending limit of the bank with which you did business?

A. Well, I don't think I knew the lending limit of the [fol. 1810] bank I was borrowing from at that time.

Q. Did the source from which the bank got the money make any difference to you?

A. No.

Q. What was the most important thing to you?

A. I would say getting the money at the going rate was the most important thing.

Q. Did it make a difference that there were other banks participating in the loan?

A. No.

Q. Now, what, in your opinion, is a minimum lending limit which is necessary for a bank to handle business in an area of about 2,000,000 population?

Mr. Littleton: Objected to.

The Court: If he has one, I will let him state it.

Mr. Littleton: I beg your pardon?

The Court: If he has one, I will let him state it.

The objection is overruled.

The Witness: I don't think I can answer that question.

Mr. Reycraft: All right.

[fol. 1811] By Mr. Littleton:

Q. You don't what?

A. I don't think I can answer that question.

Mr. Littleton: I don't think you can, either.

By Mr. Reycraft:

Q. Has it been your experience, Mr. MacMillen, that you have arranged loans for borrowers within your lending limit, arranged participation when you could have taken the whole loan?

A. Yes.

Q. Will you describe some of those?

A. Well, in general, I'd say that the fact that you can lend a borrower a given amount of money doesn't necessarily make it a wise thing for a bank to do; and under those conditions a bank might want to reduce its risk by getting other banks to participate with it.

Q. So that the fact that a bank has a particular lending limit would not necessarily mean that it would lend up to that limit on all occasions?

A. It would not.

Q. Can you tell me, sir,——

The Court: Let's stop right there a minute. Let's explore that.

[fol. 1812] By the Court:

Q. Let's assume that in your bank somebody came to borrow $400,000 when you were in the Chesapeake Industries and Colonial Trust.

If you could loan that amount you would tell the customer yes; isn't that what you would do?

A. Not necessarily. If it were a marginal loan, one which we were not sure was a good risk, we might say to him, "Well, we will loan you two hundred or we will loan you one hundred."

We might then say——

Q. Then he has to go to somebody else to get the participation, or do you arrange that? That is what I want to get the mechanics of right now.

A. That's optional. With us, our policy was that we would try to arrange it, because we wanted to be in the position of being the banker for the borrower.

However, that is not a universal policy and many banks will merely say, "We will take two hundred, you arrange the rest of it and come back to us when it is arranged and we will lend you our part of it."

That's a matter of individual policy and within banks, even the policy may vary by borrower.

Q. Suppose you wanted to keep the customer; what would you do?

[fol. 1813] A. I would arrange it.

By Mr. Littleton:

Q. You would what?

A. I would arrange it.

By the Court:

Q. You would arrange it?

A. Yes.

Q. And to whom would the customer make out his agreement to borrow and to repay?

A. To us.

Q. Alone?

A. Alone.

Q. And then you would make the arrangements with the other banks?

A. We would have a participation agreement contemporaneously executed with the other bank or banks.

Q. In other words, if you thought that $100,000 was all you cared to loan or that you were a little low on loaning funds, you would make the arrangements?

A. Exactly.

Q. All right. So that as far as the customer is concerned, you loaned him the money?

A. Exactly.

The Court: All right.

[fol. 1814] By Mr. Reycraft:

Q. Were there any occasions, Mr. MacMillen, when the customer did not know who the other participating banks were?

A. He usually did not.

Q. And did he usually care?

A. In our—I have never heard any expressions of concern about that.

Q. As far as you know, this was not a matter of concern to the customer?

A. Not so far as I know.

Q. Just by way of clarification, Mr. MacMillen, I understand correctly, do I not, that you were president of the Colonial Trust after you were president of Chesapeake Industries?

A. There was a short period of overlap, of a few months.

Q. Very brief?

A. But that's correct.

Q. All right, sir.

Now, in referring to loan participations which you have described, what consideration does the originating bank generally receive?

A. You mean where there are participations?

Q. Yes.

A. Well, that varies, but normally the originating and [fol. 1815] managing bank, if there is a series of banks in it, will receive some override, maybe. It varies depending on the degree of difficulty.

By the Court:

Q. Suppose it is a 5-per-cent loan, what do you mean by the override?

A. Well,——

Q. Let's assume a $500,000, five banks participating, you are the original bank, and four additional banks have $100,000 each. The loan is at 5 per cent.

A. Oh, you might get a quarter of 1 per cent or a half of 1 per cent.

Q. In other words, you would give to the others 4½ per cent and you would get that half per cent for servicing the loan?

A. Yes, sir. I would say that that would be high unless you had something like an accounts-receivable loan, where there was a great deal of paper work to be followed; and you might get a half a per cent.

But if it were a straight loan, to make it simple, a straight unsecured loan, you might even get an eighth.

Q. A quarter or an eighth?

A. In some cases you might not even get anything if it's simple enough.

[fol. 1816] The Court: All right.

By Mr. Reycraft:

Q. Sometimes might you do it in the hopes of getting something back from the other banks?

A. You might do it in the hope of getting reciprocal business from the banks.

By the Court:

Q. Backscratching?

A. Sir?

Q. Backscratching?

A. Backscratching, precisely.

By Mr. Reycraft:

Q. Mr. MacMillen, in your opinion, would an increase in the lending limit of the Philadelphia National Bank from $8,000,000 to $15,000,000 put it in a position to compete substantially with New York banks?

Mr. Littleton: Objected to.

The Court: I will let him answer it, if he can.

The Witness: Would you read me the last part of the question again?

(The reporter repeated a portion of the pending question as follows:

"Q. . . . would an increase in the lending limit of the [fol. 1817] Philadelphia National Bank from $8,000,000 to $15,000,000 put it in a position to compete substantially with New York banks?")

By Mr. Reycraft:

Q. Will you make that, Mr. MacMillen, a Philadelphia bank rather than a specific bank?

A. I would say that it would not, for the business which the New York banks are presently doing.

Q. Why do you say that?

A. Because I think the considerations for borrowers from New York banks today would not be significantly influenced by an increase in the lending limit of an out-of-New-York-City bank.

Q. Do you think it would make any difference with reference to competition with New York banks for pension trusts?

A. I really don't know very much about the pension-trust field. I don't think I could answer that.

Q. All right, sir.

Do you think it would make any difference in the foreign-banking business?

A. No. I don't think it would make any difference in the foreign-banking business.

Q. Can you explain why?

A. Well, I think the considerations with prompt non-[fol. 1818] United-States borrowers to concentrate a good deal of their business in New York are not—do not include the lack of availability of funds in non-New-York-City banks.

Q. What are the factors——

A. Lending limits.

Q. What are the factors which do influence these borrowers?

A. Well, I would say for non-United-States borrowers, the historical relation between the borrower and the lender was probably the most important consideration; and that has existed with some of the large New York banks or small New York banks for many, many years.

The quality of the service over a long period of time would probably be the second most important consideration.

I don't think that the lack of sufficient loan limit in non-New-York-City banks is a significant factor in any way.

Q. On the basis of your experience, Mr. MacMillen, how important a factor do you think it is in the location of a business enterprise that a city has a bank with a large lending limit?

A. Do you mean if an enterprise was going to locate in a city, how important would the lending limits of the banks there be?

[fol. 1819] Q. Yes, sir.

A. Insignificant.

Q. What are the important factors in locating a business?

A. Of course, these would vary by businesses, but the labor cost, the labor market, the availability of labor would certainly be important.

In many businesses, the availability of raw materials if you were a manufacturer; the transportation facilities, the availability of the ultimate markets, again, if you were a manufacturer.

The quality of the local government, particularly so far as their policy on law enforcement is concerned.

I think those would all be important elements.

Q. On the basis of your experience, Mr. MacMillan, what percentage of all the loans that came to your attention, by number, could be accommodated by a lending limit of $1,000,000?

A. That came to my attention while I was at Colonial Trust, over 99 per cent, by numbers.

Mr. Reycraft: No further questions.

Cross examination.

By Mr. Littleton:

Q. Mr. MacMillen, when did you first communicate with the Department of Justice your availability to testify as a witness in this case?

[fol. 1820] A. Mr. Reed asked me, I think, two weeks ago, something like that.

Q. You knew Mr. Reed before, did you?

A. Yes. I did know him before.

Q. Mr. Reed is the gentleman sitting with Mr. Reycraft at the Department of Justice counsel table?

A. Yes, yes.

Q. He communicated with you how long ago?

A. Oh, a couple of weeks ago. I couldn't tell you exactly.

Q. And I understand from your answers to these last questions Mr. Reycraft has been asking that a community which had no bank at all would attract business and industry just as easily as a community that had banks; is that correct?

A. No. I think if a community had no bank at all that that would be a deterrent.

Q. Right.

And how many banks would they have to have per population in order to attract?

A. I don't think—I think if it were a bank in the community, beyond that, it would not be any——

Q. Just one bank?

A. I would say so, yes.

Q. It is all right if you have one bank in a community?

A. I say that I don't think that it would be a deterrent [fol. 1821] to the attraction of industry.

Q. And I say the logical extension of that is that a community will attract industry even though it has no banks? Is that your theory?

A. No. I say I think a bank, a bank in a community is important, not for the reason that it would be important to the corporation, but it would be important to the employees and to the residents. It would be important to the labor element in the community.

Q. Then one bank would be sufficient?

A. Yes. You need a place to put your money and——

Q. So that from what you have last said, banking can be done by a corporation, business or industrial, at a distance, can it?

A. Yes.

Q. How much of such business is done by the New York banks in the Philadelphia area?

A. By "such business," I don't know quite what you mean.

Q. Meaning the business done by corporations, business or industrial, at a distance.

Mr. Reycraft: If you know the answer.

The Witness: I don't know.

By Mr. Littleton:

Q. Would you say there was some?

[fol. 1822] A. Oh, I am sure there is some.

Q. Would you say there was a great deal?

A. Not in relation to the total banking business done in New York.

Q. Well, all right, but how about the total banking needs of an area such as Philadelphia and the four-county area surrounding Philadelphia?

A. I am not familiar enough to answer that question.

Q. You are not familiar at all with the Philadelphia situation, are you?

A. No, I didn't say——

Q. Your bank never loaned anything over here, did it?

A. I didn't say that. I didn't say I am not at all familiar; and we did, but I am saying I am not familiar enough to answer your original question.

Q. Yes.

Now, what business did you do in Philadelphia?

A. Well, we had a very——

Q. When you are saying "we;" now, you mean Colonial?

A. Yes. We had a very happy correspondent relationship with the Philadelphia National Bank and did a good deal of business with them.

Q. What business did you do with Philadelphia business or industry?

[fol. 1823] A. Well, there were two—let's see. I can think of a couple of companies in the vicinity that we had a borrower's relationship with.

Q. That you had what?

A. That we had a lending relationship with.

Q. What were they?

A. Do you want the names of them?

Q. Sure.

Mr. Reycraft: No. I object, Your Honor. He may be embarrassed by stating the names.

The Court: Not if he is out of the business three years ago.

Mr. Littleton: All right. I will withdraw it.

By Mr. Littleton:

Q. How big were the loans that you made to them?

A. I don't think I can remember that.

Q. Did you solicit the business?

A. It was there when I became president.

Q. Did you solicit business generally in the Philadelphia area?

A. No. I did not.

Q. Your bank wasn't big enough to do that?

A. Well, we didn't do it.

Q. Do you know that other banks do solicit business in [fol. 1824] the Philadelphia area?

A. Yes.

Q. There is no doubt in your mind about that?

A. I know they have. I know they solicit.

Q. What was the ownership of the Chesapeake——

The Court: Do I understand that you withdrew the question as to names, which is entirely proper?

I thought that also included the area, whether in or around Philadelphia. I would like to hear that as to these people.

I don't think that that would make any difference.

By the Court:

Q. Were they in Philadelphia, surrounding Philadelphia? Where were they?

We just want locations, these people that you loaned money to when you were with the Colonial Trust. Were they located in Philadelphia proper, in the suburbs, or where were they?

A. One was in the city and one was in the Camden area.

By Mr. Littleton:

Q. Which you consider in the Philadelphia area, of course?

A. I did. You may not.

Q. Yes. Are they the only two you can remember?

[fol. 1825] A. The only two I can remember.

Q. And that is over how many years' experience?

A. Well, I was on the Board for a total of six years and was president for three years.

Q. That's nine years?

A. No, there was an overlap.

Q. Six years? All right.

The Court: All right.

By Mr. Littleton:

Q. What percentage of Colonial did the Chesapeake own?

A. Approximately 95 per cent.

Q. All the time you were connected with it?

A. That's right.

Q. And did they continue to own that after you left?

A. No.

Q. You went at the time Chesapeake disposed of its ownership?

A. Approximately, shortly before.

Q. What were the circumstances of Chesapeake disposing of its interest in Colonial?

A. Well, it had a handsome profit and we found a buyer.

Q. I beg your pardon?

A. We had a handsome profit and we found a buyer.

Q. Were you, yourself, a shareholder?

[fol. 1826] A. Of the bank?

Q. Of Colonial.

A. Oh, no, not at that time. I had the qualifying shares that were required of a director, 40 shares.

Q. But that's all?

A. But otherwise, no.

Q. Now, you said the largest loan that you ever had at Colonial which you participated out to other banks was $3,000,000?

A. No—yes, that's right.

Q. Is that correct?

A. Yes. That's the largest one that I remember.

Q. And you said that the largest in which Colonial ever participated while you were there was $200,000,000?

A. Yes.

Q. And I presume there the borrower selected its own banks in the $200,000,000 loan?

A. That is correct.

Q. And you got a piece of it?

A. That's correct.

Q. And I presume that——

A. At least we were selected by the borrower. I don't know——

Q. You were one of those selected by the borrower?

A. Yes. I don't know whether the borrower selected the [fol. 1827] other ones or not, but they selected us.

Q. Right; and I presume that was a loan to a large commercial-credit corporation, was it?

A. To a foreign government.

Q. A foreign government?

A. Yes.

Q. And the $3,000,000 loan was one that was brought to your bank by one of your customers?

A. Well, he was not a customer at the time.

Q. He came to your bank for a $3,000,000 loan?

A. That's right.

[fol. 1828] Q. Did he indicate to you that he knew you had to bring in other banks?

A. That came up early in the conversation, but I can't tell you whether he indicated or whether I told him.

Q. You, I presume, issue quarterly or annual statements?

A. Yes.

Q. They always show your capital and surplus?

A. They do.

Q. And your rule in New York is the same as here, that you can only lend 10 per cent of capital and surplus?

A. It is.

Q. He came here for a $3 million loan and you don't know whether he knew that or not?

A. No, I don't know.

Q. Had he ever dealt with you before?

A. No.

Q. Did you select the banks on this occasion?

A. Yes.

Q. And you received an extra or an over-riding charge in that case?

A. No, not in that case we did not.

Q. In other words, you managed the loan without any extra or over-riding charge?

A. This didn't require much management in this case.

[fol. 1829] Q. Had that borrower, to your knowledge, been to any other banks for this loan before he came to you?

A. It was an out of New York City loan. He had been to his local banks, he told me.

Q. And he had been turned down?

A. He had been turned down for the amount that he needed.

Q. You took it?

A. We, with other banks, took it.

Q. You had something to say about the difference between commercial banks and mutual savings banks. Name me some of the mutual savings banks in New York.

A. I don't know that I can give you the——

Q. Well, Bowery Savings is the biggest in the world, isn't it?

A. Yes.

Q. How many millions of dollars does Bowery Savings

have invested in mortgages in Philadelphia County, Bucks County, Delaware County, and Montgomery County at the present time?

A. I don't know.

Q. Have you ever thought to look into that?

A. No.

Q. Did you know they had some?

A. No, I didn't.

[fol. 1830] Q. Where do they invest their money?

A. You mean geographically?

Q. Yes.

A. I don't know. I don't know anything about it.

Q. Do you consider that Bowery Savings Bank was in competition with your bank in the matter of lending money on a mortgage?

A. No, because our bank didn't lend money on mortgage.

Q. Your bank didn't lend on mortgage. Did you consider Consumer Finance Company in competition with your bank in any respect?

A. Yes, I did, in some respects.

Q. Did you consider savings and loan associations in competition with your bank?

A. I considered them in competition with us for time deposits primarily.

Q. Time deposits?

A. Yes.

Q. And did you consider that they had a little advantage over you because of their special tax treatment?

A. They did; they did.

Q. They certainly do?

A. They certainly do.

Q. Are you one of those that worked to get legislation [fol. 1831] to tax savings and loan associations?

A. No we did not.

Q. That would make things more even?

A. It would make things more even yes.

Q. In other words, they had a competitive advantage over you?

A. That's right. Their chief competitive advantage, however, was that they could offer a higher rate of interest to the depositor. That was much more significant.

Q. You mentioned companies that were owned by this Chesapeake Company that you mention, including Colonial; is that right?

A. Yes.

Q. Did Colonial have business with most of those companies?

A. I don't think with any of them. They may have had a deposit with some, but they didn't lend any of them.

Q. They didn't lend any of them?

A. No. That was a policy that we adopted when we acquired the bank.

Q. Why was that?

A. We didn't think it was appropriate for a controlled bank to be loaning to other controlled corporations.

Q. You have spoken of this $3 million participation [fol. 1832] which was the largest loan in which your bank participated, which originated in your bank. I am not talking about the others. How many loans did you have which you thus participated out because they were over your lending limit?

A. I don't think I know the answer to that.

Q. How many did you have participated out because they were over the amount which, while within your lending limit, was beyond the amount that you wanted to go?

A. I don't think I could answer that.

Q. There were a number of those?

A. There were a number of them.

Q. That is quite usual, isn't it?

A. Yes.

Q. Because a company has a lending [illegible]t doesn't necessarily mean you are going to lend the entire amount of the lending limit?

A. You are correct.

Q. You always look at other considerations?

A. Exactly.

Q. Risk?

A. Risk.

Q. General quality?

A. Availability of funds.

Q. And in fixing the interest rate it is always negotiated, [fol. 1833] isn't it?

A. Yes, unless you lend to a prime borrower who is already borrowing from other banks, in which case you must either accept the rate of the other banks or not lend to him.

Q. That is competition, isn't it?

A. Yes, I think basically it is.

Q. If other banks are lending at the prime rate you can't charge more and get away with it, can you?

A. Right.

Q. But aside from that, you always, with each loan that comes in, consider all the circumstances surrounding the loan and then fix the amount of interest, do you not?

A. Yes.

Q. Quality, availability of funds to you?

A. Yes.

Q. General reputation?

A. Correct.

Q. Condition of the money market at the time?

A. Right.

Q. You don't have any fixed rate of interest for loans, do you?

A. We do not.

Q. What are the limits between which you can lend?

[fol. 1834] A. Well, I suppose the theoretical limits are from zero to the usary rate.

Q. Is there a usury rate in New York of 6 per cent?

A. Yes, but the practical limits, of course, are usually from the prime rate to 6 per cent. They have been over the last five years, let us say.

Q. The prime rate is dependent in some respects on the rediscount rate of the Federal Reserve, isn't it?

A. That is an element, yes.

Q. Another one is the amount of reserves required by the Federal Reserve at the present time. These are two of the controls which are maintained that you spoke about.

A. Exactly.

Q. Who sets the prime rate that you referred to?

A. Well, the prime rate is not as precise as the term would indicate. It is set usually by the larger banks in different communities, and it is not uncommon to have a different prime rate in New York than, let us say, in San Francisco, although that does not usually exist for a long

period of time; but if the Chase Bank today decided to make the prime rate 4¼ instead of 4½, it would be likely that other banks in New York within a week would probably be lending at 4¼, unless the Chase had made a bad mistake, in which case it would be likely that they would be back to [fol. 1835] 4½ within a reasonable period.

Q. And you usually followed the Chase?

A. Well, we as a smaller bank followed the big banks. If Chase went off today, we probably wouldn't go off tomorrow, but if First National City went tomorrow and Bankers the next day, we would be along pretty soon.

Q. Your bank never set the price?

A. We did not.

Q. You could not?

A. We could not. If we went from 4¼ to 4½, nothing would happen except we would lose business.

Q. These large borrowers you defined as over a million dollars?

A. That is large to me. It might be a different figure for somebody else.

Q. I think it is large to me also. Do you compete for their business on rate?

A. Well, rate is an element, and I would say the larger the borrower, the more important the rate element would be in the competition, because as he gets larger, his credit tends to be agreed upon by lenders, so that the area of competition then comes into the element of rate. With a smaller borrower, it would be a much wider disagreement as to the quality of the loan, and therefore the rate would [fol. 1836] be less important than the determination of the degree of risk.

Q. All right, let us talk about the large borrower. As large borrowers are you including the ones who are entitled to or who get the prime rate?

A. Yes, I include those, but, naturally, every borrower over a million——

Q. There wouldn't be any competition in rate for their business, would there?

A. Not on a rate basis.

Q. Not on a rate basis?

A. No.

Q. Where would the competition be?

A. Well, in that case it would be in the area of perhaps the length of time, duration of the loan. They might want a ten-year loan or a five-year loan, and there would be competition there. There would be competition in the degree of control that a bank would require in its loan agreement, whether it would restrict its amount of capital, restrict dividends, and the other elements that a bank controls in a large loan. That would be an area of competition. There would be an area of competition, although I would think it usually not significant, in the area of other services the bank might render. They might find homes for executives [fol. 1837] moving into the community, a simple thing like that, or they might provide unusual credit facilities or credit information. They might accommodate them in, say, a foreign subsidiary, in a country where loans were difficult to obtain. There is a whole variety of collateral services in which banks may compete with each other.

Q. So that rate is only one very small element, in some cases no element at all, is that so, in competition?

A. Yes, I think that is a fair statement.

Q. How many times in your years with Colonial did you ever compete by cutting the rate which somebody else had offered to a large borrower, using your definition?

A. I would say never, to my recollection.

Q. Never?

A. I would only say that during the period I was there, money was hard to find. Obviously that situation would be more likely to obtain during tight money than during a market when money was readily available.

Q. If you did start competing for loans by cutting rates, what would the effect be?

A. I suppose if you are thinking of the banking system as a whole, it would mean a reduction in profits for the banking system.

[fol. 1838] Q. What would it mean to you?

A. If we had money to lend that we couldn't lend otherwise, it would probably mean an increase in profits, but during the period I was there it would have meant a decrease in profits, because we could lend our money at higher rates.

Q. Aside from the money, you soon would be overloaned?

A. If you continued indefinitely, you certainly would be.

Q. If you competed by cutting rates, you would soon be overloaned, wouldn't you?

A. If you continued it that far, you would be. Whether it would be sooner or later would depend on the avidity of the borrowers, I guess.

By Mr. Price:

Q. The $3 million loan that you described, how much of it did you take?

A. My recollection is we took a half million, I think.

Q. So that you put out 2½ million elsewhere?

A. Yes.

Q. Was the 2½ million supported by a deposit or deposits?

A. There were some deposits. I don't remember.

Q. Whose deposits were they, the borrower's or yours?

A. The borrower's.

Q. So the borrower had to make deposits in the other [fol. 1839] banks which gave him a participation; is that right?

A. Yes.

Q. Did you arrange for that?

A. I don't remember exactly how that came about. I don't think we did.

Q. The borrower had to go around and make his own separate arrangements with these other banks as to how much deposit was required?

A. I see. No. If that is what you mean, I think we did it.

Q. And how was the amount arrived at? Did you tell the borrower he had to deposit in these other banks?

A. That phase of it I didn't handle, so I can't answer that. One of the officers of the bank handled it.

Q. But there was some business of that sort required?

A. Yes.

Q. You said that there was some difficulty attending this participation. What kind of difficulty?

A. No, I didn't say that.

Q. As to this loan.

A. No, I didn't say that. The question was asked, was there ever any difficulty in arranging participations, and I said that on some occasions there were, not on this case.

[fol. 1840] Q. What kind of difficulty are you speaking about?

A. Maybe the first bank you would go to didn't agree with your assessment of the credit risk and would say, "No, I don't want to participate," and you would have to go to another bank.

Q. So that there would be the problem of satisfying a number of different lending officers in different banks as to the desirability of the particular loan; is that so?

A. If you went to more than one, yes.

Q. Of course, if you went to more than one.

A. Right.

Q. And if you participated a loan out among a number of banks, you would have the same problem with each one?

A. Precisely.

Q. All that would be eliminated if you made the loan at a bank that could handle the entire thing itself, wouldn't it?

A. Well, there would be no need——

Q. All this difficulty you are talking about of getting other people to agree or not to agree, and so forth?

A. Yes.

Q. Did you do any foreign business?

A. Yes.

Q. How much?

[fol. 1841] A. I suppose we did more on a per capita basis than almost any bank in the country. About 30 per cent of our business was done outside of the United States.

Q. Was that because of your contacts with the Young interests?

A. No, that was the historical development of that particular banking institution long before we had anything to do with it.

Q. That was not anything that had grown up while you were there?

A. No.

Q. What were the other banks in New York that did the foreign business particularly?

A. Well, the First National City, of course, is well known. Chase Manhattan.

Q. How large are those two?

A. I don't think I can tell you their exact capital, if that is what you mean. I don't know.

Q. What others?

A. Well, almost every large bank in New York has an international department, but I think those two have through the years been most important in that field.

Q. And those are the banks that solicit business in Philadelphia that you spoke about?

[fol. 1842] A. I am not familiar with the First National City. I happen to know the Chase does have a department which solicits business around all of the large cities. I know it is a fact.

Q. Including Philadelphia?

A. I can't testify that they actually ever solicit in Philadelphia, no, I am not that familiar with it. I know that their general policy is to have a department, officers, employees, who go around the country soliciting banking business, but I can't say of my own knowledge that someone comes to Philadelphia.

Q. Did you have travelling officers in your bank that did solicit business of any kind?

A. We didn't have any officer whose exclusive duty that was, but on occasion we did have officers who travelled to other cities.

Q. Did you have one that travelled to Philadelphia?

A. No.

Q. You didn't solicit any business yourself in Philadelphia?

A. No. We had, as I said, a correspondent relation with Philadelphia National. We had at least one piece of business with Fidelity-Philadelphia, and on occasions when those loans were up, someone from the bank would come to Philadelphia, but we didn't have anybody who came [fol. 1843] down here and rang doorbells, so to speak.

Q. When you spoke about the commercial banks being required to maintain liquidity to pay their depositors on demand, that did not apply to the time loans or to the savings fund, did it, the savings department?

A. No. To the extent that banks having savings deposits, they can, to the extent that those savings deposits are large, to that extent the bank is more justified in making longer term commitments of its funds, because there is a

greater stability in the savings accounts than there are in demand accounts.

Q. The savings accounts are in the same position as the saving funds, are they not, so far as repaying the money is concerned?

A. That is correct.

Q. So they are on a par to that extent?

A. Yes.

Q. When you spoke about not wanting to lend your entire limit, was that the usual case, that where you had a borrower who wanted to borrow some money in your bank, you preferred, even though you could lend him $500,000 or $600,000, you would prefer not to lend the full amount even though he was a prime borrower; is that so?

A. Yes, that is so.

[fol. 1844] Q. And isn't that a general banking practice?

A. Yes, it is.

Q. And it is even more important where the borrower is not a prime borrower, and therefore the risk would have a higher proportion to your resources and assets where you were a small bank than if you were a much larger bank?

A. Yes, I think that is correct.

Q. So wouldn't it be the case, so far as banking in general is concerned, that a bank like the Chase would take a very much larger risk from a particular borrower than you would be able to do even though it were within your own limit?

A. Well, certainly in dollar amount that would be necessarily true. I don't know whether it would be true if you related to total assets or capital. I would think probably not true under those conditions.

Q. You would give as an illustration that you might want to stop at $100,000 or $200,000?

A. Yes.

Q. The Chase wouldn't necessarily stop at that same figure?

A. No. I say in dollar amount they most certainly would not, but if you related that to their capital, then the [fol. 1845] degree of risk I would imagine would be about the same. They might want to stop at the same relation to their capital as we did to our capital.

Q. So that the amount of capital of the lending bank is of utmost significance to determine where you would stop in a particular loan if it were something less than prime quality?

A. I would think that would be an important element.

Q. And that is general banking procedure?

A. Yes.

Q. You followed it yourself and other banks that you are familiar with followed the same practice?

A. Yes.

Q. Were most of these companies that you said you had experience in on the borrowing side the subsidiaries of the Chesapeake?

A. I would say most of them were but not only.

Q. Most of them were?

A. Yes, but not only those companies.

Q. And did you class them as small or intermediate or large borrowers?

A. Well, if you include the parent, I guess our borrowings ranged from $50,000 to $8 million, so we were in all three categories.

[fol. 1846] Q. Did I understand you to say your first contact with the Justice Department with reference to this case was within a couple of weeks?

A. Within a few weeks, yes. I don't want to say two weeks or three weeks. Mr. Reed came to my office and asked me if I would come down here and talk with him.

Q. Who came to your office?

A. Mr. Reed.

Q. Can you place that time approximately?

Mr. Reycraft: May I refresh your recollection? Mr. Reed's notes indicate that he talked to you on April 12 the first time, and then I believe you came down here and talked to us.

The Witness: Yes, and when was it—do you have the notes when I was here?

Mr. Reycraft: Two weeks.

The Witness: Two weeks.

By Mr. Price:

Q. Two weeks is closer than two months.

A. I think the original question was when, if I remember correctly, my willingness was indicated to testify, and that was two weeks ago in the meeting here. Now your question is, when was the first time Mr. Reed talked to me, which is a different question and a different answer.

[fol. 1847] Q. So it wasn't until a couple of weeks ago——

A. The first talk was on a very general basis about this matter and other matters, and it was only two weeks ago when——

Q. Just a couple of weeks ago you knew you were expected to testify?

A. That's right. I received a subpoena in New York, as a matter of fact, before I came down here.

Mr. Price: Thank you, Mr. MacMillen.

Mr. Littleton: May I just ask a couple more questions?

By Mr. Littleton:

Q. At the time you terminated your association with Colonial what was its ranking in size in the banks in New York City?

A. I don't happen to know that. We were 234th in the country. I happen to know that because it is published, but I don't know where we were in New York. We were not one of the first four or five.

Q. How many banks are there in New York?

A. In New York there are somewhere around 16 or 17.

Q. You are not one of the first four or five. Are you in the last four or five?

A. No, we are not in the last four or five. We are some-[fol. 1848] where in the middle.

Q. About mid way?

A. Yes.

Q. What were the years that you were associated with the Colonial?

A. Well, I became a director when we acquired the bank in 1955, early 1955. I became president in the fall of 1957 and continued in both capacities until November, 1960, last November.

Q. And was it between 1957, when you became president, and November, 1960, that the bank grew in size from $400,000 to $1,250,000?

A. It was the year before I became president, was the figure I gave you.

Q. That would be 1956?

A. Yes, something like that.

Q. So that in those four years it grew from $400,000 to $1,250,000?

A. The earnings before taxes. That is profits.

Q. How did it grow in assets?

A. I would say insignificantly.

Q. How did it grow in deposits?

A. Maybe in the neighborhood of four or five million, something of that kind.

[fol. 1849] Q. It grew?

A. Yes.

Q. From what to what?

A. Oh, from around $67 million to $72 million something in that area.

Q. And how about in loans?

A. Quite significantly.

Q. Quite significant growth in loans?

A. Yes, the bank was I think underloaned at the time I went there.

Q. It grew in loans?

A. Yes, quite significantly.

Q. It was able to compete with these other 15 or 16 banks?

A. Yes.

Q. It grew significantly in loans?

A. Yes.

Q. So it was obviously able to compete?

A. Yes, we competed for loans——

Q. In that period how many mergers were there in New York among the banks?

A. Which period?

Q. Well, the period you were speaking about, 1956 to November of 1960.

[fol. 1850] A. I couldn't tell you exactly. The Chase Manhattan merger occurred during that period.

Q. Morgan Guaranty?

A. Yes, the Morgan Guaranty.

Q. What else?

A. I think the Chemical——

Q. There were some others?

A. There were some others, yes. I couldn't tell you exactly.

Mr. Littleton: All right. Thank you very much.

Redirect examination.

By Mr. Reycraft:

Q. Mr. MacMillen, you testified that your bank had two loans in the Philadelphia area.

A. Yes.

Q. Can you tell me the size of those loans?

A. No, I can't. I don't remember.

Q. Can you tell me whether, on the basis of your observations, an aggressive bank has any difficulty in setting up participation?

A. I don't want to say "difficulty." There is often difficulties. I can only say that in our experience we never fail to set one up when we started out to do it.

[fol. 1851] Q. They could always be overcome?

A. We always overcame it. I don't want to say they can always be overcome. I can envision circumstances where they couldn't be.

Q. With reference to the availability of lending funds or the interest rate, which has been most important, on the basis of your observation, to small and intermediate sized business.

A. Availability of funds.

Q. And while you were president of the bank, if you had funds available to lend, and you did not have sufficient applications for loans, would you cut the rate?

A. Yes.

Q. You testified also concerning the deposit balances which borrowers keep with banks from which they borrow money.

By the Court:

Q. Let us go back to that last question. You never experienced that phenomenon, did you, while you were president?

A. No, it didn't occur during my time except very short-term occasions.

Q. I thought you had said that money was tight all the time you were president.

[fol. 1852] A. Yes, it was, substantially all the time, and there were maybe a few periods where for a few weeks or months you might have excess funds, but this was a period of tight money.

By Mr. Reycraft:

Q. But if it had loosened up——

A. We definitely would have dropped it down to the rate that we could have earned on the alternate source of investment, which would have been Government bonds or high-grade municipal bonds.

Q. Referring to my later question concerning a balance against loans, this was described as a compensating balance?

A. That is what it is called.

Q. Can you tell me the amount which your bank generally required or asked for as a compensating balance?

A. Generally during this period we sought 20 per cent.

Q. Were you generally successful in getting it?

A. We were generally successful.

Q. With reference to participations with which you are familiar, was it necessary in those you handled to have a lawyer for each bank review these participations or were there legal problems in connection with setting them up with each bank?

A. That is a difficult question to answer. There is a [fol. 1853] general form of participation agreement which we used, and I did not handle the mechanics of the participation, so I am not aware of any particular difficulties, but there may have been and they wouldn't have come to my attention.

Q. This is the type of thing that banks do frequently?

A. Yes, it is quite common.

Q. Is the mechanical cost of handling participation substantial in relation to the amount of the loan outstanding?

A. It is not normally so.

Q. You referred to a loan in which you participated with the Fidelity-Philadelphia.

A. Yes.

Q. Do you recall how much that was?

A. I think it was a million dollars, and we each had half of it.

Q. You have also testified concerning the improvement in the earnings of the Colonial Trust Company during your administration, on the basis of very little increase in deposits.

A. Yes.

Q. Can you tell me to what you attribute the increase in earnings?

[fol. 1854] A. Well, I think the most important thing was that this was a fine time to be in the banking business. Money was tight. Borrowers were readily available, and they were willing to pay any reasonable rate to get money. So I would say the circumstances surrounding that period were probably the most important; but, secondly, we made much better use of our funds. We were lending 62 per cent of our deposits instead of 45 per cent, so the funds that we had were used better. We revised our bond portfolio so that we got a better yield on an after-tax basis from it, and, most significantly, we reduced our cost, our labor cost, our cost of what we paid to the employees of the bank, from something like 46 per cent of our total income down to under 33 per cent, so we had a more, I think, efficient bank operation.

Q. Is there a substantial area in bank management where efficiency of operation and management can improve the earnings?

A. Well, there was in this bank. I think you would have to look at each bank to answer that.

By Mr. Littleton:

Q. During this period of tight money you of course kept in effect your 20 per cent requirement of compensating balance?

[fol. 1855] A. It was not invariable. We tried to get 20, and I would say we normally did.

Q. And that was 20 per cent of the line?

A. No, we sought 20 per cent of the borrowed balance.

Q. Of the borrowed amount?

A. Yes.

By Mr. Price:

Q. When there was surplus cash around, ultimately the prime rate came down and the discount rate came down and everything came down?

A. I am sorry; I didn't hear the first part of your question.

Q. When there is surplus cash available for loans, it is reflected in a reduction in the prime rate?

A. It certainly is, and every other rate.

Q. And every other rate?

A. Right.

Q. So that is simply a known phenomenon of banking?

A. It is.

Mr. Littleton: And in regard to different kinds of business?

A. Of every business, yes, sir.

The Court: We will take our mid morning recess at this time.

(A 10-minute recess was taken at 11:15 A.M.)

[fol. 1856] Mr. O'Donnell: Mr. Carl Taylor.

Carl Taylor, having been duly sworn, was examined and testified as follows:

Direct examination

By Mr. O'Donnell:

Q. Mr. Taylor, what is your present position?

A. President of the Waukesha State Bank, Waukesha, Wisconsin.

Q. How long have you held that position?

A. Since 1944, when the bank was founded.

Q. Are you one of the founders?

A. Yes, sir.

Q. Were you in banking prior to that time?

A. Yes, sir.

Q. In what position?

A. I helped organize the Northern Bank in Milwaukee in 1935, although not full-time employed by it, was Chairman of its Executive Committee for the period of 1935 to 1945, and my own bank was established.

Q. As president of that bank, what are your duties?

A. Well, the bank is $15,000,000, and the president of a $15,000,000 bank has just about all of the duties, but responsible for its loan policies, its investment policies, [fol. 1857] its general operation.

Q. Are you a member of banking associations?

A. Our bank belongs to the Federal Deposit Insurance Corporation. We are not a member of the Federal Reserve Bank.

Q. How about associations of bankers? Are you a member of any?

A. Well, I am a past-president of the Independent Bankers' Association. I served many years as Legislative Committeeman for the American Bankers' Association; for about ten years as Chairman of the Legislative Committee of the Wisconsin Bankers' Association.

I have been now for some years on the Taxation Committee of the United States Chamber of Commerce.

Q. Are you currently a member of the Legislative Committee of the American Bankers' Association?

A. I am on a special committee that the American Bankers' Association has for some of its legislative problems, yes.

Q. Through these associations have you had an opportunity to become familiar with the problems of banks generally?

A. Yes, sir. I think I have. Over the past ten years or so I have been invited out and have gone out to speak for the bankers' conventions of many of the states and to a number of conventions of loan societies in various states. [fol. 1858] I believe, sir, that I have a fair understanding of the general problems of banking.

Q. Do you subscribe to and read the literature of banking generally?

A. Yes, sir.

Q. As president of a bank, do you believe that you should be informed on conditions in banking generally?

A. I believe I have a fair knowledge of the banking problems of these times.

Q. You say your bank is a member of the Federal Deposit Insurance Corporation?

A. That's correct.

Q. As a member of that agency, your bank must comply with the regulations of that agency?

A. We must comply with the regulations of the State of Wisconsin and also with the Federal Deposit Insurance Corporation regulations. They are quite generally similar for all banks.

Q. Do these legal restrictions affect the type of business your bank is able to do?

A. I do not think we ever find ourselves compassed in by the restrictions or the laws. I think we would know the reason for them and would ourselves have complied with the requirements they make, even though they were not legally [fol. 1859] enforced upon us.

We worked comfortably within the regulations that we have.

Q. Are there regulations that affect the type of loan you make?

A. I would say not.

Q. Do the types of deposits which your bank receives affect the type of loans that you make?

A. We are about half savings and about half commercial deposits, and with savings deposits it is possible to make a little longer term loan than you would make with commercial deposits.

Q. What do you mean by a longer term loan?

A. We would make some mortgage loans for twelve years if we had surplus funds and our savings deposits were continuing to grow.

Commercial loans are made either on demand or on a much shorter term basis.

Q. Are most of your loans commercial loans or are they mortgage loans?

A. The majority of our loans are commercial loans and installment paper, retail-installment paper directly made by the bank.

Q. Do you mean personal type of——

[fol. 1860] A. We would have perhaps 6,000 installment loans to individuals for everything from buying an automobile to getting grandma's teeth fixed or for whatever purpose they might have for wanting the money.

Q. Do you know the rates of personal-finance companies which engage in similar types of lending?

A. Yes. I believe I do, sir.

Mr. Littleton: If Your Honor please, I assume this is restricted to Wisconsin.

Mr. O'Donnell: Yes.

Mr. Littleton: All right.

The Witness: I did not hear the comment of counsel.

Mr. Reycraft: Will you read the comment?

(The reporter repeated the proceedings as follows:

"Mr. Littleton: If Your Honor please, I assume this is restricted to Wisconsin.")

The Witness: I would not say that it is restricted to Wisconsin. I spoke in Pittsburgh a couple of years ago to the National Finance Association. I have long had a personal relationship with Francis Conway of Thorpe Finance, who operates over more than one state and who has just sold out to Pacific Finance.

[fol. 1861] I believe I have a fairly general knowledge of the finance business in other states, as well as Wisconsin.

By Mr. O'Donnell:

Q. Directing your attention to your familiarity with Wisconsin rates, the rates of Wisconsin personal-loan companies, are they similar to the rates which your bank charges on installment loans?

A. They, of course, would be very much higher than our bank's rates. Wisconsin's laws allow 1½ per cent for the first $100 per month, that's 18 per cent; 24 percent for the second $100; and 36 per cent for rates on loans——

3 per cent on the first $100, 2 per cent on the second $100, and 1½ per cent on the third $100, and above that; being 36 per cent on the first hundred, 24 per cent on the second hundred, and 18 per cent on the third hundred.

The usury law for banks is 10 per cent.

Q. When you speak of 36 per cent, you mean 36 per cent per year?

A. 3 per cent per month or 36 per cent per annum on the diminished balance.

Q. Are these differences generally applicable to loans of banks and of personal-loan companies generally in your area?

A. Yes, and generally throughout the United States. I think there may be a state or two that has no limit, but most [fol. 1862] states have a limit for finance companies which is substantially higher than the limit permitted to the banks or individual lenders.

They usually have separate small-loans acts which are administered separately from the banking laws.

Q. To your knowledge, do these personal-loan companies usually charge the maximum rate that they are permitted by law——

Mr. Littleton: Objected to unless it is restricted to Wisconsin.

Mr. O'Donnell: I was about to finish.

Mr. Littleton: Excuse me. I am sorry.

By Mr. O'Donnell:

Q. Do they charge the maximum rate permitted by law in Wisconsin?

A. My observation would be that they charge the maximum rate permitted in any state, including Pennsylvania.

Mr. Littleton: I move that it be stricken.

The Court: It may be.

Mr. O'Donnell: May I have my question read?

(The question was repeated by the reporter as follows:

"Q. Do they charge the maximum rate permitted by law in Wisconsin?")

[fol. 1863] The Witness: Yes, I believe they do.

By Mr. O'Donnell:

Q. Do you have any knowledge generally of the practice of small-loan companies beyond Wisconsin?

A. A general knowledge, yes, of the small-loans operations in other states. I have spoken before a number of their conventions. I have close personal friends in most of the larger finance companies, and I believe I have a general knowledge of how they operate and could properly state within generalities their operations.

Q. Are the rates charged by these other small-loan companies generally the maximum rates allowed in their areas?

A. Yes, they are.

The competition of banks was very slow in getting into this field. In the last four or five years many banks are establishing retail divisions and are moving into this consumer-finance deal.

By the Court:

Q. Where did all this happen, that the banks have just gotten into it in the last four or five years?

Do you know anything about Philadelphia, how long Philadelphia has been doing that type of business?

A. No, sir. I do not.

The Court: All right.

[fol. 1864] Let's go on. Let's get down to this case.

By Mr. O'Donnell:

Q. Are you a director of any other financial institutions?

A. Yes, sir. I am a director of the Modern Federal Savings & Loan Association; have been for approximately thirty years. I served almost twelve years as the Executive Trade Secretary of the Savings & Loan Association of Wisconsin.

About thirty years ago, just exactly this time, I was in Philadelphia to a celebration of the hundredth anniversary of the founding of the savings and loan business in Philadelphia.

Q. Can you state the distinctions between the savings and loan company of which you are director and your bank?

A. The Savings & Loan Association acquires its funds by selling shares to customers, which are not creditor obligations; they are shareholders in a mutual mortgage company.

The bank has capital funds of its own, but by law is permitted to accept deposits, savings and commercial deposits, which are creditor obligations.

The other principal difference is that the savings and loan associations are tax-exempt and banks pay a very high federal income tax.

Q. Both organizations of which you are a director and officer make the same type of loans?

[fol. 1865] A. No, sir. The savings and loan institutions are supposedly limited by law to mortgage loans on homes or residential properties. They have some latitude but it is very small beyond that.

The bank does a modest amount of home-loaning only when it has surplus funds. The majority of its business is commercial loans to commercial individuals and to commercial businesses.

Q. The principal business of your bank is making commercial loans, did you say?

A. That would be the principal business of our bank—soliciting deposits and using those funds for commercial loans.

Q. What is your lending limit, Mr. Taylor?

A. $123,000.

Q. Do you get requests for loans above your lending limit?

A. Yes. We do.

Q. Is this fairly common?

A. Perhaps ten or twelve a year.

Q. And what do you do with those requests?

A. If we think they are sound loans and are inclined to believe they should be made, we ring one of our correspondent banks in Milwaukee, arrange for the overline, and make the loan.

[fol. 1866] Q. Have you ever had any difficulty in arranging for this overline?

A. Not in any loan which we thought was proper to be made.

Q. Are your customers aware of this type of arrangement?

A. We would want to be sure that they knew in each case that the overline was going to another bank.

Q. Have they expressed any opinion on this?

Mr. Littleton: Who?

The Witness: There have been no objections from any customer.

By Mr. O'Donnell:

Q. What is the largest such loan you have arranged, Mr. Taylor?

A. Three quarters of a million dollars, and that was the largest one that was ever requested. We could arrange one of any conceivable size that was a sound and bankable loan.

Q. Have you turned down any requests for such loans?

A. Not because of any problem of placing them. We turn down all sizes of loans if we believe they have too great a risk; or in some cases, if we think they are not in the best interests of the borrower.

Q. Are there any other commercial banks in Waukesha?

A. There is one other located in Waukesha. There are perhaps a dozen that do business in Waukesha.

[fol. 1867] Q. Where are these others located which do business in Waukesha?

A. Well, within four or five miles, or ten miles around. Waukesha is the first county seat west of Milwaukee, almost a suburban part of Milwaukee.

A number of new banks are developing between the two county seats of Milwaukee and Waukesha.

Q. Mr. Taylor, to your knowledge, have there been any bank mergers in your geographic area?

A. In our state, the same thing is accomplished by a holding company purchasing and owning the group of banks in one holding company. The net result is the same; the technical procedure for doing it is a little different in different states.

Q. Have any of these acquisitions taken place in your community?

A. Yes. They have.

Q. Is the other bank which is in Waukesha a member of such holding company?

A. It is an independent bank, but it has one branch acquired back before 1947, when Wisconsin law permitted branches.

By Mr. Littleton:

Q. In other words, your answer to that question is no; is that correct?

[fol. 1868] A. (No response.)

Mr. O'Donnell: I take it that it is.

The Court: Read the question back.

(The question was repeated by the reporter as follows:

"Q. Is the other bank which is in Waukesha a member of such holding company?")

The Witness: It does not have a holding company. It did acquire one branch at the time that branch-banking was legal in Wisconsin.

By Mr. O'Donnell:

Q. And it is not a member of a holding company?

A. It is not a member of a holding company; presently under pressure to sell out to a holding company, as my own bank is.

Mr. Littleton: I move it be stricken.

The Court: The facts of life are always here. As the previous witness said, if they can make enough profit, they will sell.

By Mr. O'Donnell:

Q. Have you received an offer to acquire your bank?

A. We have received recently an offer for our bank substantially greater than I believe it is worth or than the stock has been selling for; and our directors and stockholders declined the offer.

[fol. 1869] Q. Why, in your opinion, was the offer made for more than your bank was worth?

A. Because if a monopoly can be established or a semi-monopoly can be established, banking can be made more profitable than any other kind of a monopoly; and every time you reduce the unit, the number of unit banks, you increase the potential for monopoly.

By the Court:

Q. What was the question that was asked you that provoked that answer or evoked the answer?

A. (No response.)

Q. Will you repeat Mr. O'Donnell's question that that was an answer to?

The Court: Not you, I am asking the witness to do it.

The Witness: The question asked me was if our bank had recently received an offer and if we accepted the offer.

By the Court:

Q. Didn't he go a step further and ask why, in your opinion, you refused it?

The Court: Is that substantially what you asked?

Mr. O'Donnell: No, Your Honor. "What, in your [fol. 1870] opinion, was the reason the price was more than the bank was worth?"

The Court: More than the bank was worth?

By the Court:

Q. Is that in answer to the question that you have said this and made that speech?

A. Your Honor, it seems to me that that was responsive to the question.

Q. It seems to you, does it?

The Court: All right.

Ask the next question.

By Mr. O'Donnell:

Q. Can you name some of these acquisitions which have taken place in your geographic area recently?

Mr. Littleton: Objected to on the ground of being irrelevant to this issue.

The Court: Sustained.

By Mr. O'Donnell:

Q. Have there been bank mergers in your geographic area?

A. Yes, there have been.

Mr. Littleton: The same objection.

The Witness: And are.

Mr. Littleton: Excuse me. I have an objection.

[fol. 1871] The Court: Read the question back.

(The question was repeated by the reporter as follows:

"Q. Have there been bank mergers in your geographic area?")

The Court: I sustain the objection on the ground that he has already answered the question.

By Mr. O'Donnell:

Q. Do you have an opinion of the effect of these bank mergers?

A. Yes, sir, I do.

Q. On competition in banking in your area?

A. Yes, sir. I do.

Q. What is that opinion?

Mr. Littleton: Objected to.

Mr. Price: Objected to.

Mr. Littleton: It is objected to as being irrelevant to this issue.

The Court: I am going to let it in. We have got to get this case finished sometime.

Go ahead. Answer the question.

The Witness: You have competitive banking if you have a number of unit banks. You have monopoly banking if you have one bank or if you have two and they can agree on [fol. 1872] how to handle the business.

And each time that a unit bank merges or is bought by a holding company, the preponderance of competitive banking shifts over to the preponderance of monopoly banking.

By Mr. O'Donnell:

Q. Why does this have an adverse effect on the community?

A. The whole economic life blood of the community is involved in its bank. Substantially never is a business started without some bank loan. The bank has almost a

veto on any economic development in the community if it chooses to veto it.

The banker's ability to find and encourage capable young people and direct them into the businesses that need to be done in the community is the source of success of the great majority of American communities.

Q. Mr. Taylor, in your opinion, has this trend you have described reduced the number of alternative sources of credit available to borrowers in your area?

A. If definitely has.

Q. With what effect, Mr. Taylor?

A. With the effect that wherever these branch operations or holding-company operations are run by a foreign management, new businesses to be started or young people who [fol. 1873] have to start on character instead of inherited cash find it is much more difficult and in many cases impossible to do what they could have done if they were dealing with an independent bank who knew them and could work with them.

By the Court:

Q. Now, Mr. Taylor, give us an illustration of each of those points that you made from your own personal knowledge.

A. Yes, sir, Your Honor.

Shortly after our bank was established, a man in his late thirties came to our bank and discussed with me the possibility of borrowing the money to start a stone company of his own. In our area——

Q. Wait a minute. Just tell about the fellow who didn't get it. Don't tell me about the fellow who did get it.

That is what I am asking you about.

A. Well, Your Honor, I just started to say what this man came to me to say. He had sought the loan at the other bank in the town and had been denied it because his employer did his banking at the other bank.

He had an alternate chance. He came to our bank and applied and we were able to work out the loan. It is now the largest stone company operating in Wisconsin. It could not have been possible except that there were alternate sources of bank loans for this man.

[fol. 1874] Q. Go ahead.

By Mr. O'Donnell:

Q. In your opinion, Mr. Taylor,——

The Court: Just a minute. Just a minute. We want to hear about the fellow who couldn't get it because of outside foreign management that I have heard about from him.

The Witness: Well, if he walked in——

By the Court:

Q. If you are making what appears to be a logical argument, tell us about it.

A. Yes, sir.

Q. But you are supposed to be here with knowledge.

A. Yes, sir.

Q. Now, do you have knowledge of a single instance of the type of horrible situation that results from bank mergers which you have just finished testifying about?

A. Yes, sir. I believe I can give a substantial number of incidents.

Q. Well, give me the instance, then.

A. The Pewaukee Bank, which I believe was the nearest bank to Waukesha, some seven miles away——

Q. You have two unit banks in Waukesha, haven't you?

A. We have two unit banks in Waukesha.

Q. All right.

[fol. 1875] A. But you asked me for an answer, Your Honor, of where a holding-company bank had stopped the progress of a business.

Q. Yes.

A. And I was just seeking to relate that.

Q. All right. Go ahead.

A. The Pewaukee Bank was purchased by the Marine Corporation, the Milwaukee-controlled banks. Three months ago the distributor of one of the larger beverages in our area, who had always banked at the other—at the Pewaukee Bank—came to tell me that he had been turned down there for the first time in his life or his father's life because they had a new management at the bank, a new set of rules that came out of Milwaukee, and he had been denied the loan.

Q. All right. Was it a good loan?

A. We made the loan.

Q. Then it was a good loan?

A. Well, we think it was good but you never know until you collect them whether they are good or not; but at this moment I believe it is good.

Q. But you haven't collected it?

A. That is correct.

Q. Nevertheless, he came to your bank and got a loan?

A. That is correct.

[fol. 1876] Q. So you criticized the other bank because they didn't think it was a good loan; is that it?

A. He stated to me that it didn't qualify for the regulations that the local branch had after it was connected with the holding company.

Q. Then you haven't had any previous banking experience loaning or not loaning or payment or repayment; you had no credit information on him at that time, had you?

A. We had full credit information on him before we completed the loan.

Q. I am asking you, you had no credit experience with him as such?

A. Prior to our loan, no.

Q. All right.

Does that credit experience have anything to do with your continuing to make loans?

A. (No response.)

Q. In other words, if a man is slow pay, drags out his loans, does that have an effect upon your re-loaning him?

A. It certainly does.

The Court: All right. Go ahead, Mr. O'Donnell.

By Mr. O'Donnell:

Q. In your opinion, Mr. Taylor, would approval of this merger have an effect on bank mergers in your area?

[fol. 1877] A. It most definitely would.

Mr. Littleton: Relating to which merger?

Mr. Price: Which merger are you talking about?

Mr. O'Donnell: This Philadelphia National Bank and Girard Trust merger.

Mr. Littleton: Objected to.

Mr. Price: Objected to.

The Court: I am going to let him answer. I will overrule the objection.

The Witness: Your Honor, I am not fully familiar with court procedure because I am not often in court, but if this is a possible answer I would like to make it.

When these mergers began to develop in our area, with the officers of the Wisconsin Bankers' Association——

The Court: You were asked an opinion on Philadelphia, now.

The Witness: Yes. I think this one very definitely affects ours.

The Court: Go ahead.

The Witness: When this merger movement began in our area some four years or so ago, the Wisconsin Banking Commission and the officers of the Wisconsin Bankers' As-
[fol. 1878] sociation, of whom I was one, went down to meet Mr. Gidney, the Comptroller of the Currency, and to urge upon him restraint in these mergers that he was permitting up in our area by means of holding-company procedure; and he said to us, without any hesitation, that he believed that bigger banks were better able to serve and he was favored toward bigger banks.

At that time the independent banking people in the industry were seeking to get a piece of legislation through the Congress that would restrict this trend towards monopoly and the bill was passed, not entirely to our satisfaction, but we thought adequate to cover cases like this.

And all of a sudden the bank monopoly in Milwaukee just almost caught fire as the three big Milwaukee banks began to bid against each other for the outlying banks and to ask new charters wherever there was a potential future need for them; and we were most happy to see the Department of Justice start three suit- which, to us, seemed to be the same suit—one in Philadelphia, one in Milwaukee, and one in Louisville—and we believe that those suits are proper and that they ought to be done in every community where this merger-branching fire is burning.

By the Court:

Q. So all mergers should be stopped?

A. No, sir. I do not think all mergers should be stopped,
[fol. 1879] but those that restrict competition——

Q. Can you name one way in which this will restrict competition, except to reduce one source of commercial credit in Philadelphia?

A. My general——

Q. Can you name any other way except reducing the number of opportunities for commercial credit?

A. (No response.)

Q. One sensible, logical statement where this merger will affect any other aspect of banking?

A. I think this merger will affect every possible application for loans that would previously have gone to competing institutions and will now go to one controlled institution, and if I might——

Q. What do you mean, "one controlled institution"?

We don't have any controlled institutions around here. We have individual Boards of Directors for every bank in this area.

A. Yes, sir. The two institutions would be controlled by one Board, whereas previously they were controlled by two Boards.

Q. All right.

A. And my knowledge of this area is that more than half of the unit banks in this four-county area have already been [fol. 1880] eaten up in the last ten or twelve years; and at some point, if this continues, there will just be one left.

Q. Now, you tell me the point.

A. Well, if it is done chronologically, it is, I assume, within ten years if you have disposed of fifteen or sixteen banks in the last ten years and there's only fifteen or sixteen left and you continue at the same rate.

Q. How big a town is your town?

A. Our city is 30,000.

Q. 30,000?

A. Yes. It's eleven miles from the city limits of Milwaukee and we are part of the whole metropolitan complex.

Q. And you have loaning power of $123,000 in your own right?

A. That is correct, sir.

Q. How much deposits do you have?

A. $15,000,000.

Q. $15,000,000 in deposits?

A. Yes.

Q. And your total assets then are $1,230,000?

A. (No response.)

Q. Do you have the 10-per-cent limit?

A. No. We do not have that type of law in Wisconsin. Our law in Wisconsin allows 15 per cent of the capital and [fol. 1881] surplus.

Q. So then you have less than $1,230,000?

A. Of capital and surplus, yes, sir.

Q. All right. I just wanted to know.

A. Yes, sir. Our total capital is about $1,700,000, but you can not use undivided profits or other reserves in computing your loan limit in our state.

The Court: All right.

Mr. O'Donnell: No further questions.

Mr. Littleton: I have no questions.

Cross-examination.

By Mr. Price:

Q. Your resources are now more than twice what they were ten years ago, aren't they?

A. Our bank was started in 1944. It has grown about $1,000,000 a year until two years ago, when the growth stopped as a result of a near-by bank being established.

Q. How did that stop you?

A. Well, it was established in the newly-born City of New Berlin, which had been farmland previously, and we had all of the public accounts and school accounts from there, and when this bank was established in New Berlin those accounts went where they belonged, into their own community bank.

[fol. 1882] Q. They have competed with you and taken some business away from you?

A. Business which belonged in this new bank in that area went there. We had helped them get the bank started, although I have no financial interest in it. We believe it should have been there.

Q. How about the First National Bank of Waukesha?

A. About $55,000,000. It's a very large institution, about $100,000,000.

Q. That is the only other bank in Waukesha?

A. We are the only two banks domiciled in Waukesha, but about ten or twelve banks compete for the business.

Q. That has been there all the time that you have been there?

A. The First National Bank is 107 year old.

Q. So that you were growing at the rate of a million dollars a year in spite of the fact that they were the only other bank in the town?

A. Yes. They were growing about $4,000,000 a year while we were growing only about $1,000,000 a year, because our county has been about the fastest-growing county in the United States in the last few years, a very rapid population explosion.

Q. They are four times bigger than you are; aren't they?

[fol. 1883] A. They are now about four times our size.

Q. You are both growing at about the same rate?

A. We are not both continuing to grow——

Q. You were both growing at about the same rate, were'nt you?

A. We are not——

Q. Aren't you

A. I——

Q. Will you please answer my question?

A. No, no. We are not growing at the same rate.

Q. I said you were during this ten-year period?

A. No. We misunderstand each other as to question and answer. They are growing about $4 to our one, which is not the same rate.

Q. You said they were four times as big as you were?

A. Yes. The same percentage they might be growing, but not at the same rate.

Q. At the same percentage rate?

A. That is correct.

Q. You were both growing at about the same percentage rate?

A. That would be correct.

Mr. Price: That's all, thank you.

Mr. Littleton: No questions.

[fol. 1884] Mr. O'Donnell: No further questions.

Mr. Reycraft: Is Mr. Clifford Gillam here?

CLIFFORD R. GILLAM, JR., having been duly sworn, was examined and testified as follows:

Direct examination

By Mr. Reycraft:

Q. Mr. Gillam, what is your present employment?

A. I am an assistant vice-president of the Philadelphia National Bank.

Q. How long have you held that position?

A. I think I became an assistant vice-president in 1957. I have been with the bank since 1949.

Q. What are your duties as an assistant vice-president?

A. I am the manager of our Montgomery office in Norristown.

Q. Have you held that position since 1957?

A. No. I became manager on January 1st of 1959.

Q. Mr. Gillam, I have handed you Government's Exhibit No. 113. Are you the Cliff Gillam whose name appears on the document as the author?

A. Yes. I am.

Q. And you are the author of the document?

[fol. 1885] A. That's correct.

Q. Now, do you have a recollection of the events which you described in this memorandum?

A. Yes. I do.

Q. Can you tell me the names of the banks that you discussed adjusting service-charge schedules upward with?

A. I discussed the service-charge schedules of two other banks in Norristown, the Montgomery County Bank & Trust Company and the Peoples National Bank of Norristown.

Q. Did you discuss it with any other banks?

A. No, that is all.

Q. Now, have you, on any other occasion, discussed service charges with other banks in your area?

A. I don't recall that I have.

Q. And what was the occasion for your discussing it with the other banks on this occasion?

A. The occasion in this case was the proposed service-charge schedule for the merged bank. I was asked to give my opinion as to the impact which the proposed service-

charge schedule would have on our bank's business in the Norristown area.

Q. What did the Montgomery County Bank indicate to you with reference to the likelihood of their adjusting service charges upward?

[fol. 1886] A. My purpose in calling them was to make a judgment as to, as I say, the effect of these service-charge schedules proposed.

The banking situation in Norristown is quite competitive and service charges are a factor in the acquisition and retention of business. I felt it necessary and appropriate, in order to make a judgment as to the effect of the new service-charge schedule on our bank's business, to inquire with them as to the present level of their service charges and also to determine, if possible, whether or not they were likely to make an adjustment in those service charges.

Q. Whom did you talk to at the Montgomery County Bank?

A. I talked to the officer in charge of their operations.

Q. What is his name?

A. His name is Mr. Bean.

Q. And what did he tell you?

A. He told me that they were—they had studied costs and income and had——

He told me first what their service-charge schedule was. He also indicated that they had studied their costs and income figures and had concluded, on a preliminary basis, that their activity charges were too low in relation to [fol. 1887] costs, and also their earnings figures, their earnings credit, was lower than their actual earnings rate; and that he was, therefore, of the opinion that it would be necessary for them at some point to adjust service-charge schedules.

Q. Did he tell you when they were going to be adjusted?

A. He was unable to do that. He indicated that this was a preliminary opinion of his as a result of studies which he had made.

Q. Did he tell you whom he discussed it with at his bank?

A. I don't believe he did.

Q. Did you tell Mr. Bean the service charges which the combined bank proposed to put into effect?

A. I don't believe that I discussed specific service charges with him.

Q. Did he tell you——

A. I was merely trying to determine what their existing charges were and whether or not a change on their part was contemplated.

Q. Did you tell him it was likely your charges would go up?

A. I said it was possible that our charges would be increased at some future date.

Q. Did you tell him about how much?

A. I do not believe that I told him. In fact, I am sure I did not tell him what service-charge schedule would be [fol. 1888] used because there were several possible service-charge schedules which could be put into effect.

Q. Why did you think it was important to discuss service charges with Mr. Bean?

A. Well, as I have indicated, the competitive situation in Norristown is a very acute one. Our customers are aware of service-charge schedules and they are a factor in obtaining business and in keeping business for our bank.

Q. Now with reference——

A. As you may have noticed, our service-charge schedule at the present time and at the time this memorandum was written was somewhat lower than the charges used by the other banks.

Q. Now with reference to the Peoples Bank, whom did you talk to?

A. Mr. Zollers.

Q. And what did you tell him?

A. I told him very much the same information which I had discussed with Mr. Bean, simply that I was asking—I was making a service-charge survey to determine, rather to verify the current level of their charges in connection with recommendations that I was making on our own service-charge schedule.

Q. What did he tell you with reference to any action that the Peoples Bank might take?

[fol. 1889] A. He said it was very difficult for him to make any comment in that regard. They apparently had increased their charges fairly recently and to his knowledge they were not considering any changes.

[fol. 1890] Q. Why did you think it was important to talk to Peoples Bank?

A. They are a very aggressive local bank competing with us in a very strong manner.

Q. They are the direct competitor of the branch which you operate?

A. That is correct.

Q. And are service charges an important aspect of that competition?

A. I would say they are a factor in the competition. I think it is pretty difficult to say how important a factor it is.

Q. What are the other factors in the competition between your two banks?

A. Other factors would be our office facilities, our lending policies, the personal relations which exist between a banker's customer and the banker, plus the general reputation of the institutions involved.

Q. Did I understand you to state, Mr. Gillam, that the Philadelphia National Bank had lower service charges than the other banks in the area?

A. Somewhat lower. A very fine analysis would indicate that our charges were somewhat lower than those then in existence at the other banks.

[fol. 1891] Q. Did this give you a competitive advantage with reference to the other banks?

A. I would say it gave us some competitive advantage. It would be difficult to say how great.

Q. That would depend on the degree of difference?

A. It would depend on the degree of difference. It would depend on the individual customer with whom you were dealing at any given time.

Q. Did either of these other two banks complain to you about your bank's lower service charges?

A. No, they did not.

Q. Did they ever discuss it with you prior to this time?

A. No, they did not.

Q. Have you ever discussed service charges with any other banks than those two you mentioned in the memorandum?

A. I have not discussed service charges with them. I think our bank makes periodic surveys of service charge

schedules in effect in our area as well as other branch areas in which we operate. Service charge schedules are prescribed. They are public information, really. A bank establishes them and they are in existence for a period of several years, so that it is something which we as a bank have knowledge of and I certainly have had knowledge of during my tour of duty in Norristown of the service [fol. 1892] charge schedules of the other banks. I have not personally made the calls.

Q. Who makes the surveys for your bank?

A. It would be someone in the various branch areas. It would be very difficult to say who makes the survey.

Q. Is there any one person in your branch area who would be responsible?

A. Generally the operations officer of our branch would make the survey.

Q. Of your particular branch?

A. That is correct.

Q. And is that you, sir?

A. No. I am at the present time but I have not been the chief operations officer of that branch during the full stay in Norristown.

Q. So that prior to the time that you assumed this position it would be your predecessor in the same position who would make the survey?

A. That's right.

Q. And what was his name?

A. His name was Robert Jones.

Mr. Littleton: I have no questions.

Mr. Price: No questions.

Mr. Reycraft: You are excused.

[fol. 1893] EDWARD G. BEATTY, having been duly sworn, was examined and testified as follows:

Direct examination

By Mr. Reycraft:

Q. Mr. Beatty, what is your present position?

A. I am an assistant cashier at the Philadelphia National Bank.

Q. How long have you held that position?
A. This is my sixth year.
Q. What was your position prior to that?
A. I was a member of the Credit Department since 1930.
Q. You have been with the bank all together since 1930?
A. That is right.

Mr. Reycraft: With Your Honor's permission, I would like to mark the original document as Government's Exhibit No. 116. It is a two-page document headed "Dun & Bradstreet, Inc. Reports," and if I may, I would like to substitute a copy after I have a chance to get a legible one.

(Two-page document headed "Dun & Bradstreet, Inc. Reports" was marked Exhibit G-116 for identification.)

By Mr. Reycraft:

Q. Are you the author of Government Exhibit No. 116?
[fol. 1894] A. That is right.
Q. When did you write this document?
A. June 2, 1958.
Q. What was the occasion for your writing this document, Mr. Beatty?
A. It was a report of a meeting which had been held, and the document was written as a memorandum of that meeting.
Q. Did you attend the meeting?
A. Yes.
Q. Who called the meeting?
A. I did.
Q. And was this part of your duties at the bank?
A. Yes.
Q. What was the subject of the meeting?
A. The problem of handling customers' requests for Dun & Bradstreet reports.
Q. What was the nature of the problem?
A. We as a bank, and we feel and know that other banks, received these requests, and sometimes filled the requests on a reluctant basis, because Dun & Bradstreet did not want us to do it. Dun & Bradstreet had recently put increased pressure on us to minimize this practice.

Q. Why did they not want you to furnish the credit re-
[fol. 1895] ports?

A. They wanted to furnish them themselves.

Q. What was the nature of the pressure which they put on you?

A. Conversation up to that point. I mean just asking us. We had had a visit from representatives from Dun & Bradstreet asking us to minimize the practice. They knew we were doing it, and they asked us to minimize or cut it to as low a point as possible.

Q. Would you say, as far as furnishing these reports is concerned, that you were in competition with Dun & Bradstreet?

A. No.

Q. You wouldn't say that?

A. No, because of the difference in size.

Q. Well, is it a fact that you performed the same kind of service for the customer as was available from Dun & Bradstreet?

A. Yes.

Q. So wouldn't you say that this indicated that there was some degree of competition between you?

A. The degree would have to be very small.

Q. But there is competition?

A. Yes.

[fol. 1896] Q. Mr. Beatty, can you tell me the names of the other persons who attended this meeting which you called?

A. George Hansmann, Bob Dodson, Leo Hughes, Don Horsey, and Bill Van Norden.

Q. What banks were they from?

Q. George Hansmann from First Pennsylvania Company, Bob Dodson from Central Penn, Leo Hughes from Provident Tradesmens, Don Horsey from Fidelity-Philadelphia, and Bill Van Nordon from Girard Corn.

Q. Did you select the persons who were invited to attend the meeting?

A. No.

Q. Who did?

A. The respective banks.

Q. You selected the banks who were invited?

A. Yes.

Q. What was the basis of your selection?

A. The banks that had extensive and well trained credit departments.

Q. And you thought the banks who were not invited did not?

A. The banks that were not invited had either none or very small credit departments.

Q. So that as far as credit information, these were your [fol. 1897] principal competitors; is that correct?

A. Yes.

Q. What was the first topic discussed at this meeting?

A. How the requests were handled, requests from customers.

Q. In the third paragraph reference is made to recent conversations which Mike Farley has had with each of the banks. Who is he?

A. He was the representative of Dun & Bradstreet.

Q. He is the one you referred to as putting pressure on your bank?

A. Yes.

Q. And is it your understanding that he had the same type of conversation with other banks?

A. Yes.

Q. Did you discuss the charges to be made to customers for these reports?

A. Yes, I discussed the charges that we made.

Q. Did you tell the other representatives present that you were considering raising your charge?

A. Yes.

Q. What did they say to you?

A. That is a difficult thing to answer. This meeting took a considerable time, but generally I would say that they were in favor of continuing to recover costs in this type [fol. 1898] of activity and were going to consult with associates to find out whether they too would consider raising their own charge.

Q. Did George Hansmann tell you that his bank was willing to go along on a $4 charge?

A. He said that he thought that $4 was not out of line with what their costs might be.

Q. And didn't he say that his bank was willing to go along with the $4 charge?

A. He said, I think, if I recall—may I look?

Q. You certainly may.

A. George said that he had no objection to us making a $4 charge and that he felt that possibly they would raise their own. Whether it was $4 or not, I cannot recollect.

Q. Your recollection at the time you wrote this memorandum was that he was entirely willing to go along with the $4 charge?

A. Yes, that's what I wrote.

Q. That is what you wrote?

A. That's right.

Q. Did he tell you also that he would discuss the matter with his associates at his bank?

A. I believe he did.

Q. Did he tell you also that he would let you know [fol. 1899] whether they would agree to the $4 price?

A. I think he did.

Q. Did he thereafter inform you whether or not they would agree to the $4 price?

A. No.

Q. Did they raise their price to $4?

A. I don't know.

Q. You haven't found that out?

A. No.

Q. You have no knowledge as to what they charge?

A. Well, they have no charge now at all.

Q. When did this happen?

A. You mean no charge?

Q. Yes.

A. Four months later.

Q. What did the Fidelity representative say to you with reference to the $4 charge?

A. Don said that they were charging at that time only $2.50 and that he felt it was not enough to cover their costs and that he wanted, as the rest of the banks were doing, to raise their charge and to better recover the costs that they were incurring.

Q. He said that his bank wanted to get in line with the rest of the banks, didn't he?

[fol. 1900] A. Yes.

Q. And this was his language, was it not?

A. Yes.

Q. You refer in your memorandum to the last meeting, which was held in 1952, and you mention the fact that Wayne Wilson of Fidelity was present at that meeting. Do you recall that?

A. Yes. I mean I recall my mentioning that in here, yes.

Q. Were you present at the 1952 meeting?

A. No.

Q. You mentioned also in your memorandum that Wayne Wilson in 1952 had agreed to go along with the $3 price; is that right?

A. Yes.

Q. Is this his language?

A. I don't know.

Q. Who told you this?

A. One of my associates.

Q. One of your associates told you that Wayne Wilson had agreed at the 1952 meeting to go along with the $3 price?

A. Yes, although the "go along" is my language.

Q. But this represented, in substance, what your associate told you, as you understood it?

A. Yes, that's right.

[fol. 1901] Q. Who was the associate that told you this?

A. I don't remember.

Q. You indicate that Don Horsey will report further to you on this. Did he do so?

A. No.

Q. You indicate also that the Girard Corn Exchange Bank was not represented at the 1952 meeting; is that correct?

A. Yes.

Q. And who gave you this information?

A. One of my associates.

Q. And again——

A. This was a general conversation with a number, and I can't remember.

Mr. Littleton: Excuse me, Mr. Reycraft.

You said Don Horsey. You mean Don Hershey, don't you?

The Witness: No, Horsey.

Mr. Reycraft: There is trouble with the legibility.

The Court: This is a good time to break for lunch.

(Recess taken at 12:30 P.M. until 2:00 o'clock P.M.)

[fol. 1902] [File endorsement omitted]

AFTERNOON SESSION

Present: Counsel as before noted.

EDWARD G. BEATTY, resumed.

Direct examination (resumed)

The Court: Do you have an extra copy of that G-116? I haven't seen it.

By Mr. Reycraft:

Q. Mr. Beatty, before the recess we had an issue arise as to whether it was Don Hershey or Don Horsey. Could you tell me the spelling of the name?

A. Oh—H-o-r——

Q. Will you spell the name completely?

A. H-o-r-s-e-y.

Q. Thank you, sir.

Now, on the second page of G-116 you indicate, do you not, that you reviewed this matter with Mr. Worstall, is it?

A. Right.

Q. And it was agreed that a charge of $3.50 per report to customers was proper; is that correct?

A. Right.

Mr. Reycraft: All right, that's all I have.

[fol. 1903] Cross-examination.

By Mr. Littleton:

Q. Mr. Beatty, as I understand it, Mike Farley was a representative of Dun & Bradstreet?

A. That's correct.

Q. Had he complained to you or your bank about this practice of your bank giving out information to customers that came from the Dun & Bradstreet reports to which the bank subscribed?

A. In effect, yes.

Q. They knew you were doing it?

A. Yes.

Q. And this had been going on for some time, had it?

A. Yes, years.

Q. In the Credit Department what do you do to obtain information? Do you just rely on the Dun & Bradstreet report?

A. Oh, definitely not. We obtain information from other banks, principally the bank of the account of the subject on which we are making an investigation, from trade sources, trade associations, and a number of other sources, a Dun & Bradstreet report being possibly one source, but not in all cases.

Q. In other words, you made investigations on a number of customers; is that right, or do you make investigations——

A. We make the investigations for customers on people [fol. 1904] who have approached them for credit, normally trade credit.

Q. Do you make investigations for people who approach the Philadelphia National Bank for credit?

A. Yes.

Q. Is the information generally exchanged among all banks with respect to various customers—businesses, corporations?

A. Yes.

Q. Why is this done?

A. Why is an investigation made?

Q. No, why the exchange of information among banks?

A. The exchange of information is made to enable any lending institution to better appraise a risk which they may or may not be about to take.

Q. And this has been going on for years?

A. It's a reciprocal arrangement.

Q. Right.

Now, this particular meeting followed, as I understand, this complaint that Mr. Farley of Dun & Bradstreet had made to your bank?

A. That's right.

Q. About this practice that he knew of, of giving out some of this information?

A. That's right.

Q. For a price to certain of your customers?

[fol. 1905] About how many of these reports to customers had your bank been making a year?

A. Oh, roughly between 100 and 150.

Q. And you paid a substantial price, as I understand it, to Dun & Bradstreet for this service they gave you?

A. Yes.

Q. And you made a charge, as I understand it, to customers for this information which you gave to them?

A. Yes.

Q. And now did that charge relate to what the information cost you?

A. Well, we tried to recover what might have been, what we might term out-of-pocket expenses.

Q. I understood you to say to Mr. Reycraft this morning that following this meeting about which he was interrogating you, you never did learn what the other banks did, but that your bank stopped this practice of furnishing information?

A. That's correct.

Q. Which you gleaned from Dun & Bradstreet reports?

A. That's correct.

Q. Did Dun & Bradstreet continue their objection to you giving the information; is that the reason?

A. Yes.

Q. How soon was that after this meeting?

[fol. 1906] A. I think November of that year that they changed—a management change and a change in policy

of Dun & Bradstreet; and in conversation with us and with other banks, we stopped the practice entirely.

Q. Dun & Bradstreet formally objected to you?

A. Yes.

Q. By letter?

A. Yes.

Q. And was there a general order issued throughout the bank about the practice?

A. Yes.

Q. What was the tenor and effect of that general order?

A. We stopped the practice entirely.

Q. What was the general tenor of the order that was sent out; that you should stop the practice entirely?

A. Oh, yes.

Q. Do you know whether or not any of the other banks stopped the practice?

A. Yes. I do know, and I do know that they did stop.

Q. And the practice hasn't been indulged in since by Philadelphia National Bank?

A. Not by us.

Mr. Littleton: That's all I have.

[fol. 1907] Redirect examination.

By Mr. Reycraft:

Q. The practice you are referring to is selling credit reports?

A. Do I have to take the word "selling" credit reports? Obtaining credit reports for customers; that's the practice I referred to.

Q. For a price? For a price?

A. No. We charged them for our out-of-pocket expense. We never considered it a price, because we wanted to definitely not make a profit.

Q. But you did charge them?

A. Right.

Q. When you delivered the report to them?

A. For the service.

Q. You charged them money for it?

A. Right.

Mr. Reycraft: I will take that.
That's all I have.
Mr. Littleton: Wait a minute.

Recross-examination.

By Mr. Littleton:

Q. When you said you delivered the reports, what did you mean by that?

[fol. 1908] A. We, in most cases, would either have the customer come in and look at the report, wherein we delivered it to him by hand; or in some cases we would mail them the report.

Q. But this was all stopped after this objection by Dun & Bradstreet and the general order that went through the bank?

A. That's right.

Q. And you haven't done it since?

A. We have not done it since.

Mr. Littleton: That's all.
Mr. Reycraft: I call Mr. Fred Potts.

Frederic A. Potts, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Reycraft:

Q. Mr. Potts, what is your present position?

A. I am president of the Philadelphia National Bank.

Q. How long have you held that position?

A. Since 1947.

Q. What was your position prior to that time?

A. I was a vice-president.

[fol. 1909] Q. For how long?

A. Six years.

Q. What were your duties as vice-president of the Philadelphia National Bank?

A. I was in charge of a certain number of local cus-

tomers, as well as national customers. They might have been borrowing ones or otherwise.

At the same time I always kept a weather eye open for any new business.

Q. Now, I have heard several different descriptions of the types of vice-presidents that you have in Philadelphia National Bank.

Could you tell me your exact title as vice-president? Were you senior vice-president or executive vice-president?

A. No, I was just a straight vice-president.

Q. Were you the first vice-president?

A. No.

Q. Can you tell me your duties as president of the bank?

A. I am chief executive officer.

Q. And familiar with all of the activities of the bank?

A. I am supposed to be.

Q. You are responsible for all of them?

A. I am responsible for all of them.

[fol. 1910] Q. Mr. Potts, when did you first discuss or consider merger with the Girard Trust Corn Exchange Bank?

A. About five years ago, in 1956.

Q. Can you tell me how that came about?

A. Yes. We found out, as a result of our discussions, that we just could not at that time arrive at a fair basis of exchange of shares.

Q. Can you tell me how the discussions initiated?

A. Mr. Smith, Geoffrey Smith, who was then the president of the Girard Trust Corn Exchange Bank and now chairman of that bank, and I discussed the over-all possibility of a merger between the two banks.

Q. Do you recall who initiated the discussions?

A. It was almost simultaneous, as I recall.

Q. What led you personally to be interested in this simultaneous approach at that time?

A. It was that the two of us felt that we had complementary banks as far as the types of services were concerned, they being largely a big trust company, and we, at any rate, having the reputation of being a commercial bank.

In looking over the branch office setup of the two institu-

tions, it was quite obvious that our branches would dovetail particularly well.

There was also the feeling that a merger would give to [fol. 1911] Philadelphia the type of an institution which was required here in the area.

Q. Did you consider, sir, that you were in competition with the Girard at that time?

A. Yes.

Q. Now, you say that these negotiations discontinued.

Did you give any consideration at that time to the advantages to your stockholders of a merger?

A. Oh, yes. Obviously, in any discussion of a merger (I don't care whether it is an industrial corporation or a financial institution) one always looks, first of all, to the ultimate advantage to one's shareholders.

Q. What were your conclusions with reference to the advantages to your stockholders?

A. At that time we could not even come down to the point with respect to a basis of exchange, as I have already testified, where we thought that we could consummate a merger regardless of whether or not it would be to the advantage or disadvantage of the shareholders.

Q. Can you tell me what the problem was in arriving at a basis for exchange which was agreeable?

Mr. Littleton: Objected to, if Your Honor please. That has absolutely nothing to do with the issue before this Court.

[fol. 1912] We are talking about the present merger, not one in 1955.

The Court: I don't see that it has any relevancy. I will sustain the objection.

By Mr. Reycraft:

Q. Mr. Potts, at that time you testified that your bank was in competition with the Girard Bank?

A. That's right.

Q. And you considered also, I believe you testified, that there would be advantages to your stockholders from a merger?

A. That's right.

Mr. Reycraft: I don't wish to go past Your Honor's ruling, but may I ask the question again?

By Mr. Reycraft:

Q. What were those advantages?

Mr. Reycraft: Would you read the question I asked before, and the objection?

The Court: Are you assuming a merger?

Mr. Reycraft: Yes, sir.

The Court: If they had merged, what would have been the advantages at that time?

Mr. Reycraft: What did they think the advantages were, yes, sir.

The Court: Well, I will let you go that far.

[fol. 1913] By Mr. Reycraft:

Q. Would you answer that question, sir?

A. Certainly.

I will come back to any management's point of view, which is to the effect that management is there only so long as a good job can be done, and by a good job I mean bringing down final net earnings of sufficient stature, with a growth trend, so that the remuneration or the dividend payments to shareholders can be sustained and, with growth, increased over a period of years.

[fol. 1914] Q. And your ultimate responsibility is to your stockholders, is it not?

A. That is right.

Q. And to return a profit to the stockholders on the bank's operations?

A. Absolutely.

Q. Was it your view at that time that the merger between Philadelphia National Bank and the Girard Trust Corn Exchange Bank would increase the earnings of the combined banks over the earnings separately?

A. Yes, over a period——

Mr. Littleton: Objected to.

The Court: Overruled.

A. (Continued) ——over a period of years, no question about that.

Q. How many years did you think at that time it would take in order to achieve this result?

A. We never arrived at any such feeling. I wouldn't know what you mean either by how many.

Q. Can you tell me about what time, about what month in 1956, these discussions began and the month they terminated?

A. This is from memory. I would think it would have been in the early spring.

[fol. 1915] By Mr. Littleton:

Q. 1955 or 1956?

A. I think it was in 1956, early spring, and the discussions did not last very long, possibly over a period of three or four weeks.

By Mr. Reycraft:

Q. And you and Mr. Smith were the principal persons who discussed the matter?

A. We were.

Q. This would mean that the negotiations were more or less completed during the summer of 1956; is that right?

A. Are you referring to the discussions of five years ago?

Q. Yes, sir.

A. When you say the discussions were completed, they were ended.

Q. They were ended?

A. Correct.

Q. During the summer of 1956?

A. That is right.

Q. When did the subject come up again between the two banks?

A. April of this year.

Q. Who initiated the discussion at that time?

[fol. 1916] The Court: April of 1960, wasn't it?

Mr. Littleton: April, 1960.

The Witness: Excuse me. April of 1960.

I think Mr. Smith reopened the subject at that time.

By Mr. Reycraft:

Q. And he discussed it with you, did he?

A. That is correct.

Q. Now, how long after April, 1960, were you able to reach an agreement on the exchange of shares, the relative rate proportions of share exchange?

A. It would have been sometime around November 1.

Q. Did you again give consideration to the question of whether the combined earnings of the bank would exceed the separate earnings of the two banks?

A. We did.

Q. And what was your conclusion?

A. That the combined earnings over a period of years would definitely be improved as a result of a merger.

Q. Can you tell me what the factors were which you considered to contribute to that conclusion?

A. Yes. May I have the exhibit, because that is listed in the big exhibit.

Mr. Littleton: Mr. Potts, that is Exhibit G-57 that the [fol. 1917] Department of Justice has put in.

The Witness: Thank you.

Mr. Reycraft, on Page 35 of this exhibit you will see "Future Earnings Prospects," and carrying over to the next page, Page 36, you will see where the pluses and minuses are listed, ending on Page 37, and it was definitely felt that the improvements would be:

Additional interest from securities due to recent investment changes.

Interest at 3 per cent on the estimated amount of legal reserves released by recent changes permitting the counting of cash.

Reduction in rental expense due to the termination of the Mall Building lease in August of this year.

Interest at 3 per cent on the estimated reduction in duplicate deposit balances carried in other banks.

Net increase resulting from disposition of non-conforming assets.

Reduction in advertising expense, estimated at 25 per cent of the 1959 expenditures.

Finally, elimination of the 69th Street branch, which has been discussed in this court room during previous sessions.

[fol. 1918] Q. Mr. Potts, with reference to the factor described as additional interest from securities due to recent investment changes, do I understand you to mean that this increase has relation to the merger?

A. Yes, in this way, Mr. Reycraft. I don't want to become too technical here. I am sure you don't want me to. There are two methods of investing in Government securities for portfolio purposes. One is to invest in what we would term low-coupon discount bonds, or by investing in high-coupon non-discount bonds. With respect to the initial investment regarding a low coupon discount bond, the amortized discount by some institutions is taken into a net earnings position, so that that would make a difference. The Girard Trust Corn Exchange went along that particular investment route. The Philadelphia National decided on purchasing high-coupon bonds on a non-discount basis, keeping them relatively short as to maturities involved.

Q. So if I understand you correctly, it was contemplated that the Girard would change its investment policy to the one that you followed?

A. There was considerable discussion regarding that. The discount bonds which the Girard Trust Company had purchased, low-coupon discount bonds, were all of very [fol. 1919] short maturity, so that it was obviously assumed that those bonds would mature. After that the chances were that the adoption of the Philadelphia National Bank form of investment purchases would be followed.

Q. Could this type of change in investments be accomplished by Girard without merger?

A. Yes.

Q. So this increase, the effect on net operating income of $828,000 is not contingent upon the merger, is it?

A. That is correct.

Q. It is correct that it is not contingent on merger?

A. It could have been done the other way, I agree.

Q. Now, with reference to the next factor, described as interest at 3 per cent on the estimated amount of legal reserves released by recent changes permitting the counting of cash, will you tell me where the increase comes from as it relates to the two banks? Is it all from one bank or is it from both?

A. The question is, interest at 3 per cent on the estimated amount of legal reserves released by recent changes permitting the counting of cash, and the application indicates that there would be a $300,000 benefit to the merged bank as a result.

[fol. 1920] Q. My question is, is that benefit contingent upon the merger?

A. That benefit is contingent upon the merger.

Q. Can you explain in what manner that comes about?

A. The Federal Reserve recently changed their regulation—I have forgotten which regulation it is—which now permits the counting of cash, whereas heretofore cash was not permitted as a legal reserve. Now, with the two banks coming together, it was felt that there would be a saving with respect to this particular item in the amount that is indicated.

Q. And it is your testimony that this saving is contingent upon the merger?

Mr. Littleton: That is your question, Mr. Reycraft, although your exhibit shows that is one of the items where the changes are not caused by the merger.

Mr. Reycraft: I honestly don't know the answer, Mr. Littleton. I am trying to find out what it is.

Will you answer my question, Mr. Potts.

A. I answered it to the effect that it was contingent upon the merger, Mr. Reycraft, this saving, and I wish I could elaborate further, but the discussions that we had at that time, I remember, were an indication that when and if there should be a merger of the two banks, that there [fol. 1921] would be this saving.

Q. Can you tell me what the reason was for the reduction in rental expense due to the termination of the Mall Building lease?

A. There would be a consolidation of some of our operating space, our operating conditions. We, the Philadelphia National Bank, have in recent years been concentrating our operating staff in a downtown office building. In order to effect the necessary changes over the past three years, let us say, we have had to rent space in the Mall Building at the corner of 4th and Chestnut Streets. In August of this year that rental expires, and it was felt that we could, through the merger, eliminate that space, that through

the consolidation we would be able to put several operating departments together and hence make that saving.

Q. Net increase resulting from disposition of non-conforming assets. Will you explain that.

A. May I just look and see what those non-conforming assets were?

Q. Certainly.

A. They are on Page 143. The non-conforming assets show certain stocks, certain mortgages owned, other real estate owned, totaling $539,583, which, if a merger should [fol. 1922] be consummated, would have to be disposed of, and the saving is due to the disposal of those items in accordance with Federal Reserve regulations.

Q. And this is a one-time saving?

A. That is a one-time saving.

Q. Go back to the first four items. I hope I didn't mislead you, because I didn't intend to. The total at the bottom says, "Changes not caused by the merger," and I am not sure that I understand whether your conclusion is that these four are contingent upon the merger or not.

A. I am afraid I will have to follow the application, which says that they are changes not caused by the merger.

Q. Would it be a fair assumption, then, that the lease on the Mall Building might have been terminated in any event without regard to the merger?

A. It could have been, yes.

Q. Can you tell me, with reference to the advertising expense which is indicated at the bottom of Page 36, how much in advertising the Philadelphia National Bank spends annually at this time?

A. Yes. On a per annum basis the expenses are approximately $450,000.

Q. Do you know how much the Girard spends?

A. No, I do not.

[fol. 1923] Q. Where do you do this advertising, Mr. Potts?

A. We do the advertising through the local press, through the radio locally, through a one-performance television newscast each Sunday evening. We do our advertising through national periodicals. I am referring to the New York Times, Wall Street Journal, and in other larger

cities. That advertising takes the form of institutional advertising, publishing of statements.

Q. Can you tell me what proportion of the Philadelphia National Bank's advertising is spent on newspaper advertising?

Mr. Littleton: Only if you know, Mr. Potts.

A. I don't know that.

By Mr. Reycraft:

Q. You have no knowledge of the breakdowns of the advertising by amount?

A. Well, I obviously could get it, but I haven't got it at my fingertips.

Q. And you expected that $193,000 of advertising expense would be eliminated by the merger?

A. That is correct.

Q. Which is one of the benefits?

A. That is right.

Q. With reference to the elimination of the Philadelphia [fol. 1924] National Bank's 69th Street office, it was your conclusion that you would save $76,000?

A. That is right.

Q. And is this a one-time expense or a continuing saving?

A. That would be a continuing saving.

Q. Mr. Potts, according to the application, Page 17, on September 21, 1951, the Philadelphia National Bank acquired the Ninth Bank and Trust Company.

A. Correct.

Q. Do you have any recollection of that?

A. That is correct.

Q. And your position at the bank at that time was president?

A. Right.

Q. At the time this acquisition was made, was that bank in competition with your bank?

A. If at all, only to a minor degree.

Q. To what degree and on what types of services was it in competition?

A. Certain loans to larger corporations in the northeast section of the city.

Q. Is that the only area in which you considered it as in competition with you?

Mr. Littleton: Mr. Potts, you can look at Page 17, that [fol. 1925] Mr. Reycraft is reading from, in Government's Exhibit G-57.

A. Mr. Reycraft, there might have been some competition as far as certain large individual accounts were concerned, but otherwise I would say no.

By Mr. Reycraft:

Q. How far was that bank from your offices, do you know, from your main office, first?

Mr. Littleton: You mean the main office of the Ninth Bank and Trust Company?

By Mr. Reycraft:

Q. How far is the main office of the Ninth Bank and Trust Company from the main office of the Philadelphia National Bank?

A. I should think it would be in the neighborhood of five or six miles.

Is that right, Your Honor.

The Court: 23 minutes on the subway.

By Mr. Reycraft:

Q. Is the basis of your opinion that this bank was not in competition with the Philadelphia National Bank the fact that it was five or six miles away?

A. That would be a factor, but the chief reason was that the Philadelphia National Bank prior to that time was [fol. 1926] technically not in the so-called retail business. The Philadelphia National Bank was a wholesale bank. Just from memory, if I may, the total assets of the Philadelphia National Bank at the end of 1950 were in the neighborhood of $868,000,000, and we had roughly 11,000 to 12,000 accounts, and out of those, a thousand accounts were represented by correspondent banks and foreign accounts.

[fol. 1927] Q. The Ninth Bank & Trust Company at the time your bank acquired it had a Trust Department, did it not?

A. Yes.

Q. Was this your first entry into the trust business?

A. Yes, personal trusts.

Q. You had other trust business?

A. Corporate trust, yes.

Q. So that with respect to trust business, personal-trust business, at the time you had no overlapping of business?

A. None.

Q. Did the Ninth Bank & Trust Company do a commercial- and industrial-loan business?

A. Yes.

Q. Did your bank do so at the time?

A. Yes.

Q. Is it your opinion that the two banks were not in competition with reference to this type of business?

A. Oh, I have said that they were with respect to certain industrial corporations up there, and probably larger individual depositors, but not to any large extent.

Q. Both banks offered commercial- and industrial-loan services?

A. That is correct.

Q. And to the extent that they offered these services, [fol. 1928] would you agree that they were in competition?

A. I would.

Q. Now with reference to the First National Bank of Conshohocken, which the application indicates at page 18 was acquired on September 25, 1953, was this bank in competition with your bank at the time it was acquired?

A. Yes.

Q. In what respects?

A. Again, in similar respects to the Ninth Bank & Trust Company. Conshohocken is an industrial area while at the same time, of course, having numerous residences.

The larger industrial corporations in Conshohocken would have maintained accounts with us in central city.

Q. How far away were these accounts from your main office?

A. Conshohocken is about 16 miles, 15 or 16 miles.

Q. Did you have substantial business in that area?

A. Reasonably so.

Q. So, do you consider that you were in direct competition with the First National Bank of Conshohocken at the time of the acquisition?

A. In so far as some of the larger corporate and borrowing accounts were concerned.

Q. You both offered commercial and industrial loans?

A. That is right.

[fol. 1929] Q. And it would be in this area that you were in direct competition?

A. That is correct.

Q. Now with reference to the Chester-Cambridge Bank & Trust Company, which the application indicates was acquired on February 20, 1954, was your bank in competition with this bank at the time of the acquisition?

A. Only to a very limited degree.

Q. Did the Chester-Cambridge Bank engage in a significant way in the making of commercial and industrial loans?

A. No. They were more of a trust company. The larger industrial bank there is the Delaware County National Bank.

Q. At that time you did have a Trust Department; isn't that correct?

A. That's correct.

Q. And you were in competition with the Chester-Cambridge Bank in the personal-trust area?

A. If we had had the inclination to go into Chester to seek personal-trust accounts, the answer would be yes.

In so far as central city, which was where we had anticipated and still do getting our major trust business, the answer would be no.

Q. Your trust services were available, however, to the people in that area who chose to avail themselves of them?

[fol. 1930] A. If they chose to avail themselves of it, no question.

Q. Would this also be true with respect to the trust business of the First National Bank of Conshohocken?

A. They had limited trust business, if at all.

Q. The application indicates they engaged in general banking and trust business.

A. Right.

Q. So that to the extent they were engaged in that business, both banks offered the same types of service; isn't that correct?

A. That's correct; except, as I say, the Conshohocken bank concentrated more in industrial loans and the Chester-Cambridge was more of a trust business.

Q. Now with reference to the First National Bank of Lansdale, which the application indicates was acquired on February 20, 1954, was your bank in competition with the First National Bank of Lansdale at the time of acquisition?

A. Only in so far as some of the larger corporate accounts were concerned in that area.

Q. So that this bank, the First National Bank of Lansdale, offered commercial and industrial loans; is that correct?

A. That's correct.

Q. And your bank also offered commercial and industrial loans?

[fol. 1931] A. That's correct.

Q. And these services were available to people in the Philadelphia area; is that correct?

A. That's correct.

Q. Now, on the same day the application indicates your bank also acquired the Montgomery National Bank of Norristown?

A. That's right.

Q. Was this bank in competition with your bank at the time of acquisition?

A. My answer is identical to what I have said in the other cases—in so far as the larger industrial concerns are concerned.

Q. As far as commercial and industrial business is concerned, you were?

A. That's right.

Q. Here again the application indicates that the Montgomery National Bank did a general banking and trust business, and I assume that this was a small trust business?

A. That's correct.

Q. Were both the First National Bank of Lansdale and the Montgomery National Bank of Norristown in competition with each other prior to the acquisition?

A. The distance is so great that I would question that at the time.

[fol. 1932] I might add that subsequently the Montgomery National Bank of Norristown established a branch or merged with a bank closer to the Lansdale area and as a result of that opening of a new branch or acquisition then they would have been in competition.

Q. How far away were the two banks at the time your bank acquired them?

A. (No response.)

Q. How far were they from each other?

A. The Norristown Bank and Lansdale?

Q. Yes.

A. Ten miles.

Q. And in your judgment this was far enough so that they were not in competition?

A. Oh, yes.

Q. Now with reference to the Hatboro National Bank, which the application indicates was acquired on December 9, 1955, was this bank in competition with your bank at the time of acquisition?

A. Again, the same reply. I hate to have you feel it is needless talk, but Hatboro is an industrial center and where we might have had joint accounts, joint borrowing concerns, then we would have been in competition.

Q. Did you have such joint accounts?

[fol. 1933] By Mr. Littleton:

Q. What do you mean by joint accounts?

A. Where they had an account and where the Philadelphia National Bank had an account from the same corporation.

By Mr. Reycraft:

Q. Do you recall whether you had any?

A. No, I don't recall that, Mr. Reycraft

Q. Now, the Hatboro National Bank was engaged in offering commercial and industrial loans, was it not?

A. That's correct.

Q. And it also conducted a trust business?

A. Very small.

Q. Small personal-trust business?

A. Yes.

Q. Now with reference to the Citizens' National Bank of Pottstown, which the application indicates was acquired on December 9, 1955, was that bank in competition with your bank at the time of acquisition?

A. To a very limited degree.

Q. Again in the commercial and industrial loan area?

A. That's correct.

Q. And with reference to the Delaware Valley Bank & Trust Company, which the application indicates was acquired on November 9, 1956, was that bank in competition [fol. 1934] with your bank at the time of acquisition?

A. To the same extent I have already noted.

Q. To the extent that it engaged in offering commercial and industrial loans?

A. That's correct.

Q. With reference to the Gimbel Brothers Bank & Trust Company, which the application indicates was acquired on July 11, 1958, was that bank in competition with your bank at the time it was acquired?

A. With respect to savings and personal checking accounts, yes.

Q. It did not offer commercial and industrial loans?

A. It made no loans.

Q. Now with reference to central-city banks, Mr. Potts, who is your principal competitor at the present time?

A. The principal competitor of ours would be the First Pennsylvania Banking & Trust Company.

Q. And who would rank next?

A. Oh, goodness, they'd all come into the pot together, Mr. Reycraft, competition being what it is in the banking business.

Q. Would you name them, sir?

A. Certainly. Fidelity-Philadelphia Trust Company, Provident Tradesmens Bank & Trust Company, Girard [fol. 1935] Trust Corn Exchange Bank & Trust Company, Broad Street Trust Company.

Have I forgotten any?

Mr. Littleton: Central-Penn.

The Witness: Central-Penn Bank.

By Mr. Reycraft:

Q. Now, you——

A. Let me add the branch of the First Camden Bank which I don't want to forget here. The Industrial Trust Company.

Do you want me to go on?

Q. Why do you say that the First Pennsylvania Company is your principal competitor?

A. Well, it is because of their total resources, the fact that they do a larger national business than the other concerns; that generally speaking we find that when we go around locally, as well as nationally, it is the First Pennsylvania Company that seems to be there, too.

Q. Would this be throughout this area in which you have bank offices?

A. Indeed it would be.

Q. Now, is the same thing true with reference to the Girard?

A. I see Mr. Brown sitting over there and the answer would be yes.

Q. They are a pretty alert competitor, are they?

[fol. 1936] A. They are an alert competitor.

Q. Now, Mr. Potts, in considering whether your bank would merge with the Girard Trust Corn Exchange Bank was any factor in that decision attributable to an inadequacy in the management in your bank?

The Court: Read that question back.

(The pending question was repeated by the reporter.)

The Witness: Is that for me to answer?

Mr. Reycraft: Oh, yes.

The Witness: I think I can answer it this way, Mr. Reycraft—that the fact that the present president of the Philadelphia National Bank was asked to be the chairman of the Board and chief executive officer of the new bank would probably answer your question in the best way that I could.

By Mr. Reycraft:

Q. I would suggest that your bank have an excellent management and ask you to agree with me.

A. I would agree.

Q. All right, sir.

Is the same thing true of the Girard Trust Corn Exchange Bank?

A. Yes, indeed.

[fol. 1937] Q. So that there was no problem of management with either bank as far as this merger is concerned; isn't that true?

A. That's true.

Q. Now with reference to the financial condition of the Philadelphia National Bank, how would you describe it?

A. Strong.

Q. And how would you describe the financial condition of the Girard?

A. Likewise.

Q. So that is it a fact that the financial condition of neither the Philadelphia National nor the Girard Trust required or necessitated a merger?

A. Correct.

Q. Mr. Potts, at the present time, what is the largest bank in Philadelphia in terms of total assets?

A. The First Pennsylvania Banking & Trust Company.

Q. And the second largest?

A. The Philadelphia National Bank.

Q. And the third largest is the Girard; isn't that so?

A. Girard.

Q. Is there a time when Philadelphia National was the largest bank in Philadelphia?

A. Yes, indeed.

Q. What caused that change?

[fol. 1938] A. A merger between the Pennsylvania Company and the First National Bank.

Q. When was that again, sir?

A. When?

Q. When did that take place?

Mr. Littleton: 1955.

The Witness: 1955.

By Mr. Reycraft:

Q. And your proposed merger would make you 50 per cent larger than that bank; is that correct?

A. That's correct.

Q. Now, which bank in Philadelphia now has the largest loan limit?

A. The First Pennsy Co. and ourselves are identical with $8,000,000, unless they have changed recently.

Q. Aren't you slightly ahead of them in capital and surplus?

A. We are in capital and surplus, but you said lending limit.

Q. Your lending limit then is not any bigger than theirs?

A. I don't think so today, I believe we are both $8,000,000.

Q. But your bank is the largest in Philadelphia in terms of capital and surplus; is that correct?

A. These figures indicate that, Mr. Reycraft, but I believe as of today that they may be a few dollars ahead of us [fol. 1939] in that respect.

Q. But it is a close race?

A. Oh, yes.

Q. Now, can you tell me what the comparison is between the two banks with respect to capital and surplus plus undivided profits?

A. The first Pennsy Co. and the Philadelphia National Bank?

Q. Yes.

A. I can not break down theirs. I certainly can from our standpoint because we have two million six forty-seven-odd thousand shares outstanding at a $10 par value, which makes for $26,470,000.

Our capital would be the difference between that and $80,000,000, and our undivided profits today would be in the neighborhood of $16,000,000, bringing us to a total net worth of around $96,000,000—$95,000,000 to $96,000,000.

Q. Now, Mr. Potts, can you tell me what the approximate market price was of the Philadelphia National Bank stock a week prior to the announcement of this proposed merger?

A. I think I can. It would be an estimate, now—in the neighborhood of $42 a share.

By Mr. Littleton:

Q. Is this bid or ask?

[fol. 1940] A. What?

Q. Is this bid or ask that you are talking about.

By Mr. Reycraft:

Q. Or selling?

A. Selling.

Q. That is the approximate price of the last sale?

A. The approximate selling price, yes.

Q. Do you know what it is selling for now?

A. 52, approximate price.

Q. Do you know what the price of the Girard stock was at about this time?

A. Approximately $53 a share.

Q. Do you know what the change was in the price of that stock to the present time?

A. Yes. I didn't look at today's paper, but it's in the neighborhood of $63 a share.

Q. Mr. Potts, referring to Government's Exhibit No. 70, which is a document from the Girard Trust Corn Exchange Bank and with which you are not necessarily familiar, referring to the statistics which appear on the second page and which appear to be based on, may I say, the Pennsylvania Department of Labor & Industry statistics, would you agree with me, sir, that each of the industrial establishments indicated on that page requires commercial banking services?

[fol. 1941] A. Yes.

Mr. Littleton: Where is that?

Mr. Reycraft: Page 2 on G-70.

Mr. Littleton: Which ones are named on that page?

Mr. Reycraft: I am referring to the industrial statistics toward the bottom of the page, under the general heading "Industrial Statistics 1955, Number of Plants, Stores, and Establishments as Indicated".

Mr. Littleton: And your question is what?

Mr. Reycraft: Would you read the question and the answer?

(The question and answer were repeated by the reporter as follows:

"Q. Mr. Potts, referring to Government's Exhibit No. 70, which is a document from the Girard Trust Corn Exchange Bank and with which you are not necessarily familiar, referring to the statistics which appear on the second page and which appear to be based on, may I say, the Pennsylvania Department of Labor & Industry statistics, would you agree with me, sir, that each of the industrial establishments indicated on that page requires commercial banking services?

"A. Yes.")

[fol. 1942] The Witness: May I qualify that?

Mr. Reycraft: Yes.

The Witness: I thought you were referring to the number of plants there, which would have been industrial plants, Mr. Reycraft.

When you come down to stores, sure, they need a depositary. There is no doubt there, but they may not need to borrow from a bank, so that I would have to qualify my answer purely to that extent.

By Mr. Reycraft:

Q. Do they all require checking-account services?

A. Oh, yes; no doubt about that.

Q. There is no doubt about that at all.

Their requirements for commercial and industrial loans would vary?

A. They would vary.

Q. Would it be your judgment, based on your knowledge of banking requirements in this area, that most of them would require commercial- and industrial-loan services from commercial banks?

A. I would think, as far as the industrial plants are concerned, where the figure indicates 6,169, that in that category most of them probably would.

Q. And with reference to stores

[fol. 1943] A. With reference to stores, I couldn't answer there. I would say that the chances were much less likely.

Q. And with reference to wholesale establishments?

A. Wholesale establishments, the chances are that they would be, to a larger degree, requiring credit facilities than the category of stores.

Q. Than retail stores?

A. Than retail stores.

Q. Mr. Potts, at page 8 of the application reference is made to the type of business which is attracted by the Philadelphia port. Are you familiar with this type of business generally in this area?

A. Yes.

Q. Do you have any familiarity with the type of business which comes through the Port of New York?

A. Oh, only generally.

Q. Do you have any knowledge as to the relative tonnages done by the two ports?

The Court: If you are going to start comparing those, you had better compare bulk and dry cargo and everything else. I happen to know a little about that.

You had better put in the difference in prices that are collected for transporting.

The Witness: Do you want to repeat the question, [fol. 1944] please?

(The pending question was repeated by the reporter.)

Mr. Littleton: This is just plain tonnage, Mr. Reycraft?

Mr. Reycraft: That is the first question.

The Witness: The bulk tonnage coming through the Port of Philadelphia last year was number one.

By Mr. Littleton:

Q. Number one in the nation, do you mean?

A. Number one in the nation.

By Mr. Reycraft:

Q. Do you know how that compares with New York?

A. No.

Q. Do you know how the dollar value of the cargoes going through this port and New York compare?

A. Imports—I am breaking imports and experts now into two separate and distinct categories.

Imports, because of the large importation of oil and iron ore into this port, have assumed a dollar position that, if I am not mistaken, likewise last year was number one in the nation.

Q. With reference to those two types of imports?

A. No, including those two.

[fol. 1945] Q. Do you know what the principal imports are into this port?

A. Oil and iron ore.

Q. Do you know what the relative percentage of those two is to the total imports?

A. No.

The Court: It is 3 o'clock. Suppose we take a ten-minute recess.

(A ten-minute recess was had.)

[fol. 1946] Q. Mr. Potts, will you refer to Page 31 of the application.

Will you agree with me that your bank competes with the Girard Bank for commercial and industrial loans?

A. Yes.

Q. And in single payment loans to individuals?

A. Yes.

Q. In loans on residential property?

A. Yes.

Q. In loans on business properties?

A. Yes.

Q. In loans on securities?

A. Yes.

Q. And you compete in making installment loans on automobiles?

A. We do.

Q. With reference to installment loans on consumer goods?

A. We do.

Q. In the category which is included in the application "Other Installment Loans"?

A. Yes.

Q. And do you know what is included in the category [fol. 1947] "All Other Loans"?

Well, you don't have to answer that.

But in the miscellaneous category "All Other Loans" you also compete; is that correct?

A. Yes.

Q. And you compete for demand deposits of individuals, partnerships, and corporations?

A. We do.

Q. And for deposits of State and political subdivisions?

A. Yes.

Q. And for deposits of banks?

A. Yes.

Q. And for time deposits of individuals, partnerships, and corporations?

A. Yes.

Q. And for time deposits of state and political subdivisions?

A. Yes.

Q. And for time deposits of banks?

A. Yes.

Q. Does your bank offer account reconciliation services?

A. Yes.

Q. And does Girard also offer them?

[fol. 1948] A. Yes.

Q. Would you explain briefly what an account reconciliation service is?

A. It can only be accomplished through some of the new Rube Goldberg machines. What we would do in account reconciliation is to take in—may I qualify this and give you a specific example payrolls.

Q. Yes, sure.

A. For instance, we would take the payroll of a corporation and then we would make out the checks, send out the checks, have the checks returned, run them up, make up the statements for that particular depositor, and then send out the statements. In other words, reconciliation of an account.

Q. Were these services available to corporations throughout the area in which you have b[illegible]k offices?

A. If a head office offers that type of service, the answer would be yes. As far as the individual and smaller units of branch offices are concerned, no.

Q. Do you compete with the Girard Bank in operating services?

A. Yes.

Q. Does your bank offer lock boxes?

A. Yes.

[fol. 1949] Q. Will you explain what they are.

A. A lock box is established in order to facilitate the collection of checks for a corporation. Let's use Company X, which has large check collections in an area. An insurance company is as good an illustration as I can give you, or let's say a big oil company, and in order to facilitate the collection of their checks, what they will do when they send out their statements is to, on the return envelope, just have "Lock Box X, Y, or Z, Philadelphia, 30th Street Station." Then the bank would go and pick up whatever mail was in that particular lock box, process it, and give credit where credit is due.

Q. What is the advantage to the corporation of this type of service?

A. Quicker collection, and in the event that a check indicates insufficient funds, it will be easier and quicker to find out where there is a lack of funds. I can pull that together by saying that it is, of course, a facility from the standpoint of credit.

Q. It has the advantage to the corporation, does it not, of having less lag in the time it receives money?

A. It reduces float.

Q. It reduces float. Very good.

And this is a service which is essential primarily on a [fol. 1950] local basis; is that correct?

A. Let's say a regional basis. More on a regional basis, I think. It could be both, and, of course, depending on volume always.

Q. Does the Girard Trust Corn Exchange Bank offer this type of service?

A. Yes.

Q. And do you compete with them?

A. Yes.

Q. Do other banks in this area offer this type of service?

A. Yes.

Q. All of them?

A. I couldn't answer.

Q. Does your bank have a foreign department?

A. Yes.

Q. Can you tell me what measure of the volume of business you use for your foreign department? Is it dollar volume of deposits?

A. Well, we measure our foreign department, its success or failure, on the final net operating profit at the end of a period, let's say a 12-month period. Obviously, in order to obtain a profit, one looks at deposits, one looks at volume of transactions. I am referring to letter of credit. [fol. 1951] I am referring to acceptances. I am referring to other items in the over-all foreign department operations.

Q. Can you tell me what the volume of transactions was in your foreign department in 1960?

A. No.

Q. Approximately?

A. No.

Q. I assume that is available.

A. That is available.

Q. The Girard Trust Corn Exchange Bank, does it also have a foreign department?

A. Yes.

Q. Do you compete with them in the type of services that your foreign departments offer?

A. Yes.

Q. Is there any other bank in town which has a foreign department of equal size?

A. Yes.

Q. Who is that?

A. Did you say equal size?

Q. Yes.

A. No. Excuse me.

Mr. Littleton: Equal size to what? Philadelphia National [fol. 1952] or the Girard?

The Witness: To the Philadelphia National? That is what I assume you meant.

By Mr. Reycraft:

Q. To the Philadelphia National. What is your answer to that?

A. Philadelphia National has the largest foreign department operation in the city.

Q. And who is the second largest?

A. The Girard.

Q. And third?

A. Provident Tradesmens, I believe. That's pulling it out of the thin air.

Q. Are they substantially smaller than your foreign department?

A. Yes.

Q. Does your bank offer bank credit cards?

Mr. Littleton: What is a bank credit card?

The Witness: What do you mean by that?

By Mr. Reycraft:

Q. Well, I got this list out of your annual report, which indicates that you had bank credit cards.

A. We do.

Q. Can you tell me what they are?

[fol. 1953] A. Bank credit cards are the establishment of credit to an individual, which would then enable that individual to purchase goods, be it in a department store, and come in and borrow up to a certain maximum amount. What that is, it is a new form of establishing credit to individuals.

Q. Does the Girard have anything similar to this?

A. I couldn't answer that. I don't know.

Q. Can you tell me what type of checking accounts your bank has available?

A. All kinds.

Q. Can you tell me what all kinds are?

A. Demand deposits—that is regular checking accounts—special checking accounts, savings accounts, and this bank credit that we have just been talking about.

Q. I don't believe you meant to indicate that a savings account is a checking account.

A. No, I didn't.

Q. And the Girard offers the same type of checking accounts, do they not?

A. They do.

Q. And you do compete with them in the service?

A. Yes.

Q. With reference to personal loans, your bank is in the personal loan business, are you not?

A. Yes.

[fol. 1954] Q. And the Girard also?

A. Yes.

Q. And you compete with them in this area?

A. We do.

Q. I have also seen a reference to an executive loan service which you offer, and I take it that this is a higher personal loan service.

A. That terminology is an interesting one. I think that is more to catch some of the bigger fish.

Q. Does the Girard catch these fish also?

A. They do.

Q. The same fish?

A. The same fish. Out of the same pond, let us say.

Q. I see also that you offer revolving credit service. Can you tell me what that is?

A. Revolving credit is very similar to what I was trying to describe to you. Let's say Mr. Reycraft comes into the bank and wants to set up a line of credit for himself. If Mr. R's credit warrants it, then the bank would establish a certain line of credit, depending on what they have figured out the individual's credit is worth. A lot has to do with salary, income, information that is given to the bank by that individual. Then this line *is* credit is available to that individual to borrow upon up to the maximum [fol. 1955] amount established. The individual, Mr. R, could go into the store and buy a piano, and if it wasn't above his line of credit, he could utilize the line of credit and borrow to that extent, pay off, then come back in again at a future date, borrow enough to buy an ice box, as a case in point.

Q. And does the Girard offer the same type of service?

A. I believe so.

Q. So that you are in competition with them in that area also?

A. Right.

Q. You also have a special form of tuition financing plan, do you not?

A. We do.

Q. And does the Girard also?

A. They do.

Q. And you compete with them in that area?

A. Yes.

Q. And your bank has an estate planning service, does it not?

A. Yes.

Q. Can you describe briefly the function of your estate planning department?

A. Yes, indeed. An individual is endeavoring to look [fol. 1956] into the future, wishes to protect his wife and family. He comes in for professional advice. He is given just that type of advice as to how much insurance an estate might have, what kind of Will he might set up, how much he should set aside in securities—anything having to do with estate matters.

Q. And the Girard offers the same type of service?

A. They do.

Q. And you are in competition with them in that activity?

A. We are.

Q. Do you also have an investment advisory service?

A. Yes.

Q. Can you tell me in a general way what that does?

A. An individual or corporation who desires advice on investments professionally would come to a bank and establish the relationship for just such investment.

Q. And does the Girard have a similar service?

A. They do.

Q. And you compete with them there also, don't you?

A. Yes.

Q. Does your bank have a common trust fund?

A. We do.

Q. Will you describe what a common trust fund is?

[fol. 1957] A. A common trust fund was established some years ago. I believe it started here in Philadelphia. It has been a very popular form of investment for smaller trust assets.

Q. And does the Girard have a similar plan?

A. They do.

Q. And you compete with them for this type of business also?

The Court: As a matter of fact, Mr. Reycraft, they try to avoid it. I can tell you that from personal experience.

The Witness: Mr. Reycraft, that comes in under, let us say, competing for trust business.

By Mr. Reycraft:

Q. You do compete for trust business?

A. Oh, yes.

Q. Now, you got into the trust business about 1951. Would that be correct?

A. That is correct.

Q. And since that time what has been the progress of your trust department?

A. Our Trust Department assets today total approximately $400 million.

Q. And this has all been achieved since 1951?

[fol. 1958] A. That is correct.

By Mr. Littleton:

Q. When you give that figure, you mean the trusts which you administer?

A. The trust assets in the bank is the way I answered that question. Is that the way you wanted it answered?

Mr. Reycraft: Yes, sir.

By the Court:

Q. How much did you take over from the Ninth?

A. $17 million. We had quite a decision to make whether to go into the trust business or not. We decided to carry on.

By Mr. Reycraft:

Q. Do you know the approximate amount of the trust business that the Girard has under administration?

A. Approximately 2¼ billions of dollars.

Q. And you compete with them, don't you, for the available business in this field?

A. Yes.

Q. Do you administer pension and profit-sharing funds in your bank?

A. We do.

Q. And approximately how many of these do you have?

A. I couldn't answer.

[fol. 1959] Q. Will you describe briefly what is meant by pension and profit-sharing funds.

A. Yes. I think "pension" describes itself. In other words, a corporation comes in to us, and is desirous of setting up a pension and wants a corporate trustee. There are two forms. One is the so-called insurance trust, and a bank corporate trusteeship. Sometimes there can be one or the other, or they will be divided, so that with respect to pensions I don't think there is any difficulty there. Profit sharing is of a similar nature. If a company desires to set up a profit-sharing plan for its employees, they will come for professional advice to a bank, and the bank then would trustee the funds of that profit-sharing plan.

Q. Does the Girard offer the same type of services?

A. They do.

Q. So you are in competition here also?

A. That is correct.

Q. And does your bank offer correspondent bank services?

A. Yes.

Q. Can you describe what correspondent bank services you offer, briefly?

A. A correspondent bank, let's take a country bank, needs a central city bank, similar to the way a larger city bank [fol. 1960] needs a Federal Reserve Bank. We act similarly for our correspondent banks smaller in nature as does the Federal Reserve Bank for us. With our correspondent bank friends we offer many services in addition to the monetary one which I have mentioned to you, such as investment advice, clearance of checks, proof transactions, collection of items, and so on.

Q. With reference to the clearance of checks, do a larger number of these come from areas other than Philadelphia?

A. Yes.

Q. They come from other states?

A. That is correct.

Q. Do you have any estimate as to the approximate dollar value of your clearances during a week or a month or by any period of time?

A. I can get those, but I don't have them at my fingertips.

Q. Would you know, for example, the volume of the clearances out of state?

A. No.

Q. You would not have that separately?

A. Yes, we would have those figures in the bank.

Q. I think if you have those in summary form, I would [fol. 1961] like to get them.

A. I will be glad to.

Q. The Girard offers similar services, does it not?

A. Yes.

Q. And you compete with them for the business of correspondent banks?

A. We do.

Q. Have you given any consideration in your bank to taking over bookkeeping functions of correspondent banks?

A. There has been some talk, Mr. Reycraft, but we have not more than just considered it as something that might materialize in the distant future.

Q. Could you tell me how this service would operate as you contemplate it now?

A. Well, when you say, take over bank operations, the bookkeeping operations, distance would come into that. In other words, a bank at a distant point would get no advantage of having a bigger city bank handle that item for them. If a correspondent bank were close at hand, it would be possible for another bank to handle their bookkeeping program for them, but I will ask you, if you were another bank, would you like that bank to have the names of all your depositors?

Q. I wouldn't think so.

[fol. 1962] A. No.

Q. Not the Philadelphia National Bank.

A. That is correct.

Q. That would be because you are competitors.

A. Right.

Q. And because of the quality of your service. I assure you that is all I had in mind.

A. Right.

Q. Mr. Potts, who prepared the application which is marked as Government's Exhibit No. 57?

A. Is that the big application?
Q. Yes, that is the big one.
A. Dozens of us.
Q. Who would be the person who had the primary responsibility for it in your bank?
A. Our Comptroller.
Q. Is that Mr. MacLaren?
A. Yes.
Q. Can you tell me who prepared the narrative part of the application?

Mr. Littleton: There are several narratives in there. Maybe you better specify.

By Mr. Reycraft:

Q. Specifically I refer to Pages 7 to 11 of the application.
[fol. 1963] A. 7 to 11?
Q. Yes.
A. Senior management of both banks, with advice of counsel.
Q. It was a combined job?
A. It was a combined job.
Q. No one person would be——
A. No.
Q. Mr. Potts, do you know of any specific loans which your bank has lost because of your loan limit?
A. Yes.
Q. Will you tell me what they are.

Mr. Littleton: I don't think we should give names here, Mr. Reycraft.
Mr. Reycraft: Well, I don't see any way to avoid it.
Mr. Littleton: I do. You can withdraw the question.
Mr. Reycraft: Well, that is not the way I am willing to avoid it.
Mr. Littleton: I am going to object to talking about customers' business, with respect to customers' business publicly, if Your Honor please.
Mr. Reycraft: Your Honor, I am trying to be sensitive [fol. 1964] to the problems of the bank, but when we are talking about matters as specific as this, that require some analysis, I don't really see any way to avoid it.

The Court: Well, at the moment I am going to sustain the objection to the use of names. If you want it brought out by categories, whether it was industry, finance, construction, or general matters like that, all right, but I don't see where people who go to a bank in confidence and seek a loan should have their names spread all over the United States in a situation like this. I am going to sustain the objection. I think it will be an invasion of privacy unwarranted by the facts of this case.

Mr. Reycraft: May I ask Your Honor, if Mr. Potts will refer by number to the situations he has in mind and then furnish the names to us in confidence, which we will maintain——

The Court: I have no objection to that provided the Government agrees right now never to use them in any other but this litigation here and that they be impounded permanently.

Mr. Reycraft: With Your Honor's permission. If we wanted to use them, we would ask Your Honor's permission.

The Court: Yes. I can see no possible way that it could [fol. 1965] ever happen.

Mr. Littleton: If Your Honor please, may I ask for a further protective order on that, namely, that the Government not be entitled to subpoena the people from such borrower or any of their records in reference to such transaction or proposed transaction which never resulted.

The Court: In the absence of a showing of real necessity, I will grant that request.

Mr. Littleton: Thank you, sir.

Mr. Reycraft: I am going to withdraw the question, then.

By Mr. Reycraft:

Q. Mr. Potts, to your knowledge, what was the first occasion when your possible merger was discussed with representatives of the banking authorities?

Mr. Littleton: This is the merger under discussion, Mr. Reycraft?

Mr. Reycraft: Yes.

A. It is so long ago, it is hard for me to remember, but I believe the date was November 15, 1960.

Q. That is the date the application was filed, isn't it?

A. That is correct.

[fol. 1966] Q. And you didn't discuss it with either the Comptroller's office or any of his representatives prior to that time?

A. No.

Q. Now, how long prior to the filing of the application was the matter presented to your Board for action?

A. If you would reword that question, Mr. Reycraft, I could answer better because about two weeks prior to November 15th it was decided to approach each director of the respective banks separately to tell them about the situation, what was developing, to let them know how the basis of exchange which we had decided upon at that time was arrived at.

Then the formal application was presented to the Board at a meeting on Tuesday, November 15th, if I am not mistaken.

Mr. Reycraft: Will you mark as Government's Exhibit No. 117 a one-page document with the date of November 15, 1960, at the bottom, "Excerpt from Minutes of a Regular Meeting of the Board of Directors of The Philadelphia National Bank held on November 15, 1960."

(Document entitled "Excerpt from Minutes of Regular Meeting of the Board of Directors of The Philadelphia National Bank held on November 15, 1960" was marked Exhibit G-117 for identification.)

[fol. 1967] By Mr. Reycraft:

Q. Mr. Potts, will you refer to Government Exhibit 117? This is the excerpt from the minutes of a regular meeting of the Board of Directors of the Philadelphia National Bank, is it not, approving the proposed merger?

A. Yes.

Mr. Reycraft: Will you mark as Government's Exhibit No. 118 a one-page document headed "Excerpt of Minutes and Resolutions Adopted by the Board of Directors of the Philadelphia National Bank, December 20, 1960."

(Document entitled "Excerpt of Minutes and Resolutions Adopted by the Board of Directors of the Philadelphia National Bank, December 20, 1960" was marked Exhibit G-118 for identification.)

By Mr. Reycraft:

Q. Government's Exhibit 118 is an excerpt of the minutes and resolutions adopted by the Board of Directors of the Philadelphia National Bank on December 20, 1960, and what does that add, sir, to the earlier minutes?

A. Do you want me to read it?

Q. No. This is the authorization to execute the agreement of consolidation, is it not?

A. That's correct.

Q. All right, sir.

[fol. 1968] Mr. Reycraft: Now will you mark as Government's Exhibit No. 119 a document consisting of 15 pages, entitled "Agreement of Consolidation between Girard Trust Corn Exchange Bank and the Philadelphia National Bank, Under the charter of the Philadelphia National Bank, Under the title of 'Philadelphia Girard National Bank and Trust Company.'"

(15-page document entitled "Agreement of Consolidation between Girard Trust Corn Exchange Bank and the Philadelphia National Bank, Under the charter of the Philadelphia National Bank, Under the title of 'Philadelphia Girard National Bank and Trust Company,'" was marked Exhibit G-119 for identification.)

By Mr. Reycraft:

Q. Is this a true copy of the agreement of consolidation, Mr. Potts?

Mr. Littleton: You had better look at it.

The Witness: Without having had the chance, nor do I think you want me to take the time to read it, it certainly purports to be just that.

Mr. Reycraft: Will you mark as Government's Exhibit No. 120 a 4-page document headed "Articles of Association of Philadelphia Girard National Bank and T .st Company."

(4-page document entitled "Articles of Association of [fol. 1969] Philadelphia Girard National Bank and Trust Company," was marked Exhibit G-120 for identification.)

By Mr. Reycraft:

Q. Would you satisfy yourself, sir, that that is a true copy of the articles of association?

A. May I give the same answer to this as I did the other one?

Mr. Reycraft: Will you mark as Government's Exhibit No. 121 a 13-page document headed "By-Laws of Philadelphia Girard National Bank and Trust Company."

(13-page document entitled "By-Laws of Philadelphia Girard National Bank and Trust Company," was marked Exhibit G-121 for identification.)

By Mr. Reycraft:

Q. Would you satisfy yourself, sir, that this is a true copy of the by-laws of the Philadelphia Girard National Bank and Trust Company?

A. May I give the same answer as I did before?

Q. Mr. Potts, would you describe the transaction which was intended to bring about the consolidation of the two banks?

A. You are referring to 117?

Q. That is the contract, I believe.

Mr. Littleton: If Your Honor please, these agreements have been marked. They speak for themselves. We of- [fol. 1970] fered at the very beginning to stipulate them all into the record.

Now to have this witness describe the transaction—the agreements speak for themselves.

The Court: How was that, describe the agreements?

Mr. Reycraft: The transaction, Your Honor.

The Court: The transaction?

Mr. Reycraft: Yes, sir, how was it to take place physically?

The Court: How was it to take place physically?

Mr. Reycraft: Yes, sir. Who would do what?

The Court: I will let that go.

The Witness: Would you repeat the question, sir?

(The pending question was repeated by the reporter as follows:

"Q. Mr. Potts, would you describe the transaction which was intended to bring about the consolidation of the two banks?")

The Witness: May I again ask Mr. Reycraft, are you referring to one of the documents you have just given me?

Mr. Reycraft: Yes, sir. 119 describes in some detail the [fol. 1971] agreement between the parties and I ask you to state, sir, for the record, how the consolidation was to be brought about.

The Court: Who was to do what and what trucking company was to move the bullion?

The Witness: Should the outcome of this anti-trust suit be favorable——

By Mr. Littleton:

Q. To us?

A. To us, we would move to effect what you see here in these agreement, Mr. Reycraft.

There would be relatively little physical change. There would be a dovetailing of departments, personnel, likewise, of course, a complete dovetailing of top organization.

By Mr. Reycraft:

Q. What would the stockholders of Girard Trust Corn Exchange Bank do with their stock?

Mr. Littleton: Hold it.

Mr. Price: What was the question?

The Witness: What does it say here?

Mr. Price: That is objected to.

The Court: Overruled.

The Witness: It says here that each of the 1,591,875 shares of Girard presently outstanding shall be converted [fol. 1972] to 1.2875 shares of capital stock of the association.

By Mr. Reycraft:

Q. Would deliver their stock to the Philadelphia National Bank?

A. Should the merger be consummated, they would deliver their stock to the merged institution, and the merged corporate trust department of that institution.

Q. To the charter bank, is that correct?

A. That's correct.

Mr. Littleton: He didn't say that.

Mr. Price: No.

Mr. Littleton: He said the merged institution.

The Witness: I said the merged institution.

By Mr. Reycraft:

Q. Is it correct that they would deliver it to the charter bank?

Mr. Price: Objected to.

The Witness: They would deliver it to the resulting bank.

By Mr. Reycraft:

Q. To the charter bank?

A. Is that the same terminology?

Q. I am using the language you used in the application.

[fol. 1973] Mr. Littleton: If Your Honor please, I think what Mr. Reycraft is doing here is asking this witness to express a legal opinion.

Mr. Reycraft: I am asking him to describe an official transaction, as to who does what. It requires no legal knowledge whatever.

By Mr. Littleton:

Q. Do you know, Mr. Potts?

A. I don't know.

By Mr. Reycraft:

Q. You don't know whether the——

The Court: Wait a minute now. Wait. Maybe that is a matter that I will take over and answer.

What section of what exhibit provides that?

Mr. Reycraft: At the bottom of page 5, Your Honor.

The Court: There is no doubt about what that says. That provides for surrender to the association under the title of Philadelphia Girard National Bank and Trust Company.

That's what the agreement says and that's it. I don't need to have any testimony on that.

Mr. Price: I point out to Your Honor that that is simply the stock certificates that they are talking about [fols. 1974-1975] there.

The Court: I understand.

Mr. Reycraft: Your Honor, I wonder if this would be a convenient time to adjourn. I have some more questions from Mr. Potts, but I want to get further documents.

The Court: All right. We are within a few minutes of closing time, anyway. We will adjourn.

(Adjourned at 3:57 o'clock P. M. until 10:00 o'clock A. M. on Monday, June 19, 1961.)

[fols. 1976-1977] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

TENTH DAY

Philadelphia, Pa., June 19, 1961

Before Hon. Thomas J. Clary, J.

* * * * * * *

[fol. 1978] FREDERICK A. POTTS, resumed.

Direct examination (cont'd.)

Mr. Reycraft: Will you mark as Government's Exhibit No. 122 an eight-page document headed "Amendment to Agreement of Consolidation Between Girard Trust Corn Exchange Bank and the Philadelphia National Bank under the charter of the Philadelphia National Bank Under the Title of Philadelphia Girard National Bank and Trust Company.

(Eight-page document headed "Amendment to Agreement of Consolidation Between Girard Trust Corn Exchange Bank and the Philadelphia National Bank Under the Charter of the Philadelphia National Bank Under the Title of Philadelphia Girard National Bank and Trust Company" was marked Exhibit G-122 for identification.)

By Mr. Reycraft:

Q. Will you examine Government's Exhibit No. 122 and confirm, if you will, that this is an amendment to the contract of December 20, 1960, which has been marked as Government's Exhibit No. 119.

A. As far as I can see, this is a true copy of the amendment.

Q. Mr. Potts, changing to a different subject, are you

familiar with the circumstances under which the first cross-
[fol. 1979] county branching occurred in this area?

A. Indeed, I am.

Mr. Littleton: You mean the Philadelphia National Bank's first cross-county branching?

Mr. Reycraft: I am referring generally to cross-county branching by Philadelphia banks within the four-county area.

The Witness: Well, I can say generally that I am.

By Mr. Reycraft:

Q. Do you know which Philadelphia bank was the first to acquire a branch cross county?

A. The Pennsylvania Bank and Trust Company.

Q. And when was that, sir?

A. That was during the depression, and they were asked to cross county lines by the authorities to save a local situation that was in rather parlous condition.

By Mr. Littleton:

Q. 1934?

A. 1934.

By Mr. Reycraft:

Q. When did your bank first cross county lines?

A. When we merged with the First National Bank of
[fol. 1980] Conshohocken, which would have been in 1953.

Q. Were there other cross-county acquisitions after World War II prior to this time?

A. On our part or by other banks?

Q. By other banks in Philadelphia.

A. Yes, there were.

Q. What were they?

A. That I couldn't give you offhand.

Q. What bank was acquired cross county in 1953?

A. First National Bank of Conshohocken.

Q. Was this move opposed by the bankers associations in those counties?

A. Opposed?

Q. Yes.

A. This move was opposed by the Montgomery group, and there was considerable agitation in Bucks County. I can't say whether there was any official action taken by that group.

Q. You don't know whether there was any official action taken by the Montgomery County group?

A. No, I do not.

Q. By either group?

A. By either group, I am not sure whether there was any official action or not.

[fol. 1981] Q. Mr. Potts, are you familiar with the formation in 1954 of a group of eight banks, including the Philadelphia National Bank, to pool loan limits?

A. Yes.

Q. Would you describe that group and its purpose.

A. Its purpose was to help finance improvements in the City of Philadelphia, such as what we call the Penn Center development.

Q. This group was formed in 1954?

A. I couldn't answer to that. There was a group formed at the time when financing was needed in order to move forward with this Penn Center project.

Q. Do you recall the total amount of the lending limit which was available from that pool?

A. No.

Q. Approximately 22 million?

A. Approximately 22 million.

Q. And were loans made from this pool?

A. Yes.

Q. To whom?

A. To several construction groups, one of which I know is headed by McCloskey and Company. As for any others, I can't answer. I don't know.

Q. What was the amount of the loan to the one group [fol. 1982] that — recall?

A. I can't say.

Q. Was it over $10 million?

A. Can I just answer it this way: It was a substantial loan and certainly in excess of the maximum loaning limit of any individual bank.

Q. But you don't know the total amount?

A. I don't know the total, no.

Q. Can you obtain that information for us, sir?

A. Yes, indeed.

Q. Is it a fact that the members of the group which you described included the Philadelphia National Bank?

A. Yes.

Q. The First Pennsylvania Company?

A. Yes.

Q. The Girard Trust Corn Exchange Bank?

A. Yes.

Q. The Fidelity-Philadelphia?

A. Yes.

Q. Central Penn?

A. Yes.

Q. The First National Bank?

A. Yes.

Q. The Tradesmens Land Title Bank and Trust Company?

[fol. 1983] A. Yes.

Q. And Provident Trust Company?

A. Right.

Q. I believe that is all.

A. I believe that is the so-called group.

Q. And I believe you agreed that they had a combined loan of about $22 million at that time?

A. Yes, that is right.

Q. Are you familiar with any similar pooling of lending limits since that time, Mr. Potts?

A. No, I am not.

Q. This is the only occasion which you recall?

A. This is the only case I recall at the moment without refreshing my memory.

Q. You don't think there were any others?

A. I don't think there were.

Q. Mr. Potts, will you refer to Page 7 of the application. The paragraph numbered 1 on Page 7, of the reasons for the proposed merger, is given to be, "To provide the Philadelphia area with a bank commensurate with its size and therefore adequate to meet 'the area's banking needs."

On the basis of your observation, Mr. Potts, how big a

bank do you think that Philadelphia needs to meet the various needs?

[fol. 1984] A. That is a difficult question to answer categorically. I would like to reply in this fashion, which is to the effect that I firmly believe that Philadelphia and this whole service area needs a bank bigger than what it now has.

Q. Do you think the bank resulting from this proposed merger will be big enough?

A. It will be helpful.

Q. Do you think it will be big enough?

Mr. Littleton: Big enough for what?

Mr. Reycraft: Big enough for the purpose which Mr. Potts described in the application.

A. It will be, let us say, getting a foot on the lower rungs of the ladder.

Q. Do you think it should be even bigger?

A. That depends on the future growth of this area and the future growth of the country.

Q. Based on existing needs of the area, do you think Philadelphia needs a bigger bank?

A. In my estimation, I would feel that as a starter, this would be a pretty good beginning.

Q. Do you think that, based on its existing needs, it doesn't need a bank bigger than the one which is proposed?

A. Mr. Reycraft, again, I can only repeat that we are dealing with something that is pretty nebulous here. In [fol. 1985] other words, how big a bank does an area need? I still have to answer that I feel, with the proposed merger, the resultant bank would go a long way toward relieving some of the needs of this community, financial needs.

Q. You indicated in response to an earlier question that this was a beginning; is that correct?

A. Yes.

Q. Do you think it may be necessary to make additional acquisitions by the combined banks in order to extend this beginning?

A. Certainly not in the foreseeable future.

Q. Is it a fair summary of your answer to say that you don't know at this time how big a bank is needed to serve the area's needs?

Mr. Littleton: He said not in the foreseeable future.

A. I said not in the foresseeable future.

By Mr. Reycraft:

Q. So that your answer is you don't know?
A. That is correct.

Mr. Littleton: That isn't——
The Witness: Not in the foreseeable future is the way I reply to your question.

By Mr. Reycraft:

[fol. 1986] Q. Do you think, Mr. Potts, that this area needs more than one bank of that size?

A. Again your question falls into this nebulous area where I don't think even the Lord Almighty could answer that question for you. It all depends on the growth of the area, things that, of course, we are all hoping for, looking toward the future, things that we expect in the way of population growth, in the way of expansion in commerce and industry. Other than that, I cannot answer your question.

Q. Mr. Potts, do you know of any industry, any plant or business, which has not come to Philadelphia because of the size of its banks?

A. I could answer that question in this manner, which is to the effect that on several occasions, to my knowledge, larger corporations in the national sphere would have come to a bank in Philadelphia to help them out in their financial requirements if there had been a larger bank in the area. Specifically your question is, do I know of any industries that have not come to Philadelphia because of inadequate lending limits. I would not be able to answer that, only in this way, that Philadelphia is one of the large industrial complexes in this country. We have in an area —let's take 90 miles—I believe the largest shopping group in, well, I won't say in the only section, but is one of the [fol. 1987] really big marketing areas in the country.

Q. Mr. Potts, perhaps you didn't understand my question. My question was not whether businesses had come to Philadelphia or not come to Philadelphia for loans or financial aid. My question was whether you know of any industry or business which had not located its business in the Philadelphia area because of the size of the banks in Philadelphia.

A. I answered you generally, because I don't think it can be replied to in specifics. I have had conversations with companies over the years that I have been connected with the bank, particularly when I was roaming the countryside covering our depositors, our borrowers, and as I said earlier, keeping a weather eye open for new business, and I had some of those conversations. There certainly were comments to the effect, why doesn't Philadelphia have a bigger bank to take care of the needs of companies like ours.

Q. Do you know of any single business which you can identify which has not located in the Philadelphia area because of the size of its banks?

A. No, but——

Q. All right. The answer is no; is that correct?

A. No, but. I will answer it this way: With a larger bank it is quite conceivable that businesses would have [fol. 1988] come here to establish plants which they have not done at the moment.

Q. It is conceivable, but you don't know of any?

A. That is correct.

[fol. 1989] Q. Now, Mr. Potts, you indicate at page 8 of the application that Philadelphia banks have not been able to meet fully the needs of the expanding Philadelphia metropolitan area.

Can you tell me the facts upon which you rely for this statement?

A. That's in paragraph——

Q. The second paragraph from the end.

Mr. Littleton: Also the top paragraph of the page.

The Witness: We state here or it is stated in the application that Philadelphia banks have not been sufficiently large to fill the area's banking needs and therefore have not been able to keep pace progressively with the area's growth.

Would you rephrase your question in line with that, please?

Mr. Reycraft: Yes, sir.

By Mr. Reycraft:

Q. My question is, will you state the facts upon which you rely for the statement that Philadelphia banks have not been able to meet fully the banking needs of the expanding Philadelphia metropolitan area?

A. We come back to a question that you asked on Thursday, and that comes down to the point that I am aware [fol. 1990] of occasions where our own depositors who were larger national corporations would have come to us if we had been able to meet the needs more fully than we have been able to up to the present moment.

Q. Will you state some of those instances?

A. We get into names now, so we are right back to where we were last Thursday.

The Court: If you keep them in broad categories, I suppose that their identity might be pretty well disguised.

The Witness: In a letter which was written, Mr. Reycraft, on December 22nd, to Mr. Bicks of the Antitrust Division, there were certain names set forth in that letter. If I may have that it would be helpful.

By Mr. Reycraft:

Q. May we have that marked, Mr. Potts, please?

A. Yes, sure.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 123 a copy of a letter consisting of 6 pages, from which I would point out that on the last page of the exhibit information is omitted from the letter as indicated by asterisks, which the Government does not wish to offer.

This is a letter signed by Mr. Frederic A. Potts and [fol. 1991] Geoffrey S. Smith to Mr. Robert A Bicks, Assistant Attorney General, Antitrust Division.

(Partial copy of 6-page letter dated December 22nd, 1960, to Mr. Robert A. Bicks from Frederic A. Potts and

Geoffrey S. Smith was marked Exhibit G-123 for identification.)

Mr. Littleton: Perhaps I had better state at this time that if this letter is going to be offered as an Exhibit G-123 we insist that the entire letter go in and not just the part that the Department of Justice wants.

Mr. Reycraft: I am not offering the omitted part. If you wish to offer it, you may do so.

The Witness: May the question be repeated, please?

(The reporter read the testimony as follows:

"Q. Will you state some of those instances?

"A. We get into names now, so we are right back to where we were last Thursday.

"The Court: If you keep them in broad categories, I suppose that their identity might be pretty well disguised.

"The Witness: In a letter which was written, Mr. Reycraft, on December 22nd, to Mr. Bicks of the Antitrust Division, there were certain names set forth in that letter. If I may have that it would be helpful.")

[fol. 1992] The Witness: These names, Mr. Reycraft, set forth the loans outstanding of five million or more, and lines of credit to that extent; and with this exhibit I could not specifically answer your question because the companies that I would know about that have asked for additional lines are not listed here.

By Mr. Reycraft:

Q. Mr. Potts, excuse me. Is this information contained in the omitted portion of the letter?

A. Yes.

Mr. Reycraft: I don't have it.

Mr. Littleton: May we have the question and answer before we go on?

(The testimony was repeated by the reporter as follows:

"Q. Will you state some of those instances?

* * * * * * *

"The Witness: These names, Mr. Reycraft, set forth the loans outstanding of five million or more, and lines of credit to that extent; and with this exhibit I could not specifically answer your question because the companies that I would know about that have asked for additional lines are not listed here.

[fol. 1993] "By Mr. Reycraft:

"Q. Mr. Potts, excuse me. Is this information contained in the omitted portion of the letter?

"A. Yes.")

Mr. Littleton: May I ask what the witness is about to read from now?

The Witness: The witness does not desire to read from this, except to quote numerically.

By Mr. Littleton:

Q. What is it that you have in your hand?

A. Which I understand is the Court's desire here.

Q. What is it that you have in your hand?

A. I have in hand now the full letter of December 22, 1960, written to Mr. Robert A. Bicks of the Antitrust Division.

Mr. Littleton: Has that had a Government identification mark on it?

Mr. Reycraft: No, it doesn't. I don't wish to offer it.

I have no objection to marking it as Government Exhibit 123-A, with the understanding that I don't intend to offer the full letter.

The Witness: Right.

(Copy of 12-page letter dated December 22, 1960, to Mr. Robert A. Bicks from Frederic A. Potts and Geoffrey S. [fol. 1994] Smith was marked Exhibit G-123-A for identification.)

The Witness: In this exhibit there are listed certain names under this category, to wit, The Following Borrowers in the Service Area of Philadelphia National Bank and of Girard Within the Last Year Explicitly Stated that they have had to obtain Loans from Banks in New York or other Cities due to the Inadequate Lending Limits of Philadelphia National or Girard.

These are five in number.

By Mr. Reycraft:

Q. All right, sir. With reference to the first of the five which you have given in response to my question, how much of a loan did it have outstanding from the Girard Trust Corn Exchange Bank?

A. Zero.

Q. Zero?

A. As of this date.

Q. And from the Philadelphia National Bank?

A. $6,960,000.

Q. Do you know, sir, what the total borrowing requirement of that first company is?

A. Considerably in excess of the figure that I just gave you.

Q. Is it considerably in excess of $15,000,000?

A. I haven't got those at my fingertips, Mr. Reycraft.

[fol. 1995] Q. Don't you think it is?

A. Rather than answer you this way, I can get those for you.

Q. All right, sir. Maybe that will be helpful.

Now with reference to the second borrower listed, which you have given in response to my question, how much of a loan did it have outstanding from the Philadelphia National Bank on the date of this letter?

A. Zero.

Q. And from the Girard?

A. Zero.

Q. And it is a fact, is it not, that at least $14,000,000 was available from both banks combined at that time?

A. Indeed it was.

Q. Now with reference to the third company which is listed, it has the full amount of loan outstanding which

Philadelphia National Bank was able to give it at that time, did it?

A. That's right.

Q. And from the Girard it could have, if its credit was satisfactory, borrowed another $2½ million?

A. That is correct.

Q. Now, with reference to the fourth company that you have given in response——

Mr. Price: $1½ million.

Mr. Reycraft: I beg your pardon?

[fol. 1996] Mr. Price: $1½ million.

Mr. Reycraft: $2½ million.

The Witness: $2½ million.

Mr. Price: That's right. I am sorry.

By Mr. Reycraft:

Q. With reference to the fourth company, how much of a loan did it have outstanding from Philadelphia National Bank?

A. It did not have any at that time.

Q. And from Girard?

A. Likewise.

Q. Now, it, too, could have had $14,000,000 from the two banks if its credit was satisfactory; isn't that correct?

A. It could have.

Q. And with reference to the fifth company which you have given in response to my question, it could have obtained another $400,000 from the Philadelphia National, could it not?

A. Yes, it could.

Q. And another $3½ million from the Girard?

A. Right.

Q. Now, do you know, sir, what the fifth company's line of credit with the Philadelphia National Bank was?

A. Our legal limit, I am pretty sure.

Q. The legal limit of $8,000,000?

[fol. 1997] A. $8,000,000.

Q. So that they had not yet exhausted the existing line of credit which they had with your bank?

A. Not with us, but they had——

By Mr. Littleton:

Q. As of this date, you mean?

A. They had larger outstandings; not as of this date.

By Mr. Reycraft:

Q. Larger outstandings with other banks?

A. Oh, yes.

Q. Now, sir, going back to the first of the companies which you have given me in response to my question, do you know whether this company had lines outstanding with other banks in Philadelphia?

A. No, I do not.

Q. Do you know whether the second company had lines outstanding with any other bank in Philadelphia?

A. I do not.

Q. And the third?

A. Yes. They do have lines with other banks.

Q. With what other banks?

A. I couldn't answer that.

Q. And the fourth?

A. I couldn't answer that, either.

[fol. 1998] Q. And the fifth?

A. Yes. They do have lines with other Philadelphia banks.

Q. Including First Pennsylvania?

A. Yes.

Q. Can you tell me, sir, with reference to the fifth company, who its major banker in Philadelphia is?

A. The First Pennsylvania is their lead bank.

Q. Now, I don't want to ask you to do this on the record, Mr. Potts, but I would like for you to furnish the names of the persons who made the statements which have been cited in response to Question 7 in the letter to Mr. Bicks of December 22nd and, as I say, it is not necessary to do this on the record.

A. All right.

Q. If I understand you correctly, you do not know who the principal bankers are in Philadelphia for each of these five companies, other than the fifth one?

A. Oh, yes.

Mr. Littleton: I don't think he said that.

Mr. Reycraft: I misunderstood, then.

You apparently do know.

The Witness: You asked me with respect not to the principal bank; you asked me if there were other banks who had lending limits, if I am not mistaken.

[fol. 1999] By Mr. Reycraft:

Q. All right. With respect to the first one——

A. With respect to the first, we would be. Philadelphia National Bank would be the principal banker here in Philadelphia.

With respect to the second, likewise; the third, likewise.

I couldn't answer for the fourth and I have given you the reply on the fifth.

Q. The fourth is not your bank, however?

A. I couldn't answer whether we are the principal bank or not. I think we probably are.

Q. You probably are the principal bank for the fourth?

A. That's right; here in Philadelphia.

Q. And as of the date of this letter they had no loans outstanding from your bank?

A. That is right.

Q. Nor from the Girard?

A. That is right.

Q. Now, the second borrower, Mr. Potts, is a subsidiary of another company which is also indicated on the exhibit.

Would your answer that your bank is the principal banker for the subsidiary apply also to the parent?

A. In Philadelphia, yes.

[fol. 2000] Q. Do you know who the principal banker is for the parent without restriction to Philadelphia?

A. I wouldn't say, Mr. Reycraft, that they have a principal bank. I do know that there are several institutions in New York that enter into loaning credits when the principal requires it.

As a rule, whenever possible, loans have been made *pari passu*, between the Philadelphia National Bank and New York banks.

However, when the principal needs were larger, why, then the Philadelphia National found itself a little backward in their ability to service this large company.

Q. But you did participate in each of those occasions?

A. We have participated.

Q. Now with reference——

Mr. Littleton: Excuse me. He said in each of those cases.

The Witness: I didn't answer that way. I said we have participated in loans; as far as each are concerned, I couldn't answer.

By Mr. Reycraft:

Q. With a few possible exceptions, do you believe that you did participate in all of them?

Mr. Littleton: If you know.

[fol. 2001] The Court: Read the question back.

You are dropping your voice again, Mr. Reycraft.

(The pending question was repeated by the reporter as follows:

"Q. With a few possible exceptions, do you believe that you did participate in all of them?")

The Witness: I just wouldn't know, Mr. Reycraft.

By Mr. Reycraft:

Q. Do you know, sir, whether the borrowing requirements of the second company, both subsidiary and parent, exceed $15,000,000?

A. Yes.

Q. Substantially?

A. Substantially.

Q. Can you tell me approximately how much?

A. No.

Q. With reference to the third company, can you answer the same question, whether its borrowing requirements exceed $15,000,000?

A. The answer to that question would be yes, on occasions.

Q. And the fourth company?

A. I don't know.

Q. Now, Mr. Potts, are there any other facts on which you rely in support of your statement that the Philadelphia [fol. 2002] banks have not been able to meet fully the needs of the expanding Philadelphia metropolitan area?

A. The Philadelphia National Bank has not been able fully to meet the needs of the area, not only with respect to a low ceiling on its lending limits, but also with respect to our Foreign Department operations, where particularly in what we term letters of credit we definitely find a considerable amount of business going elsewhere—New York in particular.

There are certain other areas where, with a larger bank, there could be greater specialization—specialization in many sections; such as in the commodity field, in loans—loan specializations.

We could have our whole loaning division set up differently from what we do now. We are now on what we call area coverage as against specific industry-type of coverage. If this merger should go through we would seriously consider setting up specialists in steel, in mortgages and construction loans, in various other categories of that type.

With a larger bank we could add to our specialists in the investment field. The same would hold true in trust operations, in pensions, in profit-sharing projects.

With a larger bank we could move forward into greater automation and hence give and offer better services to our correspondents and to our large depositors.

[fol. 2003] Q. Now, Mr. Potts, with reference to the activities of your Foreign Department, what is the limitation on your ability now to serve the needs of the area?

A. No. 1 would be size.

Q. Where does that become important?

A. You asked me a question last Thursday if I would bring in certain figures with respect to our Foreign Department. I have them here. Do you want to have this as an exhibit?

Mr. Reycraft: Yes.

Will you mark as Government's Exhibit No. 124 a one-

page document headed "Foreign Department Balance Sheet, December 30, 1960."

(One-page document headed "Foreign Department Balance Sheet, December 30, 1960," was marked Exhibit G-124 for identification.)

Q. This is of the Philadelphia National Bank, is it not, Mr. Potts?

A. That is of the Philadelphia National Bank.

Q. And there are pencil marks on the exhibit which I assume were made by someone from your bank.

A. They were made by me.

Q. Very good, sir.

A. We should have other copies. Are there other copies? No?

[fol. 2004] I will then read from the exhibit. Is that what you would like?

Q. If you will, sir, yes.

A. This sheet from which I am reading is dated December 30, 1960, and is the balance sheet as of that date of the Philadelphia National Bank's Foreign Department. It shows on the assets side of the ledger total loans of $27,147,000.

It shows under another category "Customers Liability, Unused Letter of Credit, $24,808,000.

Under a still different category, "Customers Liability, Acceptances," $18,070,000.

Due from Banks $2,659,000.

Other Assets, $28,000.

Excess Funds Used by PNB—that is the Philadedphia National Bank— $12,538,000.

Total footings $85,250,000.

On the liabilities side of the ledger are "Letter of Credit Issued," $24,808,000. This is a contra item.

Acceptances, $18,635,000.

Due to Banks—Demand—this is in the deposit category—$21,669,000.

Due To Banks—Time, $18,050,000.

Other Liabilities, $319,000.

[fol. 2005] Gross Income, $1,769,000.

Total footings, $85,250,000.

These figures, comparatively speaking, with our competition in New York in particular, are relatively small.

In banking—and I am not going to philosophize at great length, believe me—prestige, seems to count for a lot, and prestige, particularly with respect to foreign banks, is an important factor in a relationship of that kind. What happens is that foreign exporters, foreign importers, are very apt to think of New York City as the principal financial center, which of course it is. Philadelphia lives under the shadow of New York. We are only 90 miles away. That is one of the handicaps that Philadelphia banks have to live under, and I can assure you that, with greater size, and hence added prestige, that we would be able in Philadelphia in the merged institution to get considerably more business of a foreign nature than we are today.

Q. What is the limitation on your ability now to attract this business, other than prestige?

A. Oh, size of loaning limit, Mr. Reycraft, too.

Q. What is your lending limit as far as foreign loans are concerned?

[fol. 2006] A. Well, there are certain categories there, but, generally speaking, we are confined to our legal lending limit of $8 million.

Q. And you had a total as of the date of this exhibit of $27 million in loans?

A. Total loans, yes.

Q. Were any of those loans of $8 million?

A. I couldn't answer.

Q. You also indicated that areas of specialization would improve your bank's ability to compete; is that correct?

A. That is correct.

Q. Would it improve their competitive standpoint with relation to other Philadelphia banks?

A. In mergers, Mr. Reycraft—and now I am speaking only from my limited experience, which only goes back to September of 1951, when we merged with the Ninth Bank and Trust Company—I have found that in each instance where we have merged with a bank, that other banks in the area very quickly build up their own census if they require it, so that my answer to you is that with respect to the effect on competition, that competition as a result of

something of this nature seems to be enhanced rather than reduced.

Q. And this would follow also as there are additional [fol. 2007] mergers in the area, do you think?

Mr. Littleton: Read that question, please.

(The last question was read.)

Mr. Littleton: Objected to.

Mr. Reycraft: Well, I would like to know the basis of your objection. It is a perfectly proper question.

Mr. Littleton: I don't think his opinion is proper.

Mr. Reycraft: He has expressed his opinion. I am inquiring the basis of it.

Mr. Littleton: He has expressed his opinion as to what he has seen in the past.

By Mr. Ryecraft:

Q. So that each merger you have seen, Mr. Potts, in your opinion, has enhanced the competitive situation in the area; Is that a fair statement?

A. That is a fair statement. I have found that competition gets stiffer. Of course, if there is only one bank in an area, such as out in Conshohocken, that is another story.

Q. Do your have any reason to believe, based on your past experience, that this won't be true of the next merger also?

A. My feeling is that competion is going to be increased should this merger that we are now contemplating be [fol. 2008] consummated.

Q. And if there are other mergers after that——

Mr. Littleton: Objected to. The only merger before this court is the present merger.

The Court: I will sustain the objection.

By Mr. Reycraft:

Q. Mr. Potts, your annual report for 1960 on Page 10 indicates that for the second successive year the Foreign Department income showed a substantial increase over the preceding year. This was due to expanded activity in all

areas of the department's operations, particularly in letters of credit and other types of import and export financing.

Now, on the basis of that statement it doesn't appear that your bank has been at a disadvantage with respect to its ability to grow, does it?

A. That would be purely a matter of degree, Mr. Reycraft, nothing more. There was more activity in the foreign field throughout, and we got a reasonable amount of the added increase throughout.

Q. Mr. Potts, also at Page 8 of the application, the beginning of the third paragraph:

> "No Philadelphia bank has a lending limit high enough to serve the credit needs of large industry."

[fol. 2009] Are there ways in which your bank's lending limit can be increased other than by merging?

A. There are two other ways. One is through retained earnings and the second through the issuance of additional stock.

Q. Is there a third way, namely, transfers from undivided profits?

A. You will have to go back to your first question, Mr. Reycraft.

Mr. Littleton: Transfers to what?

Mr. Reycraft: He knows what I am talking about.

Mr. Littleton: Do you mean transfer to capital and surplus?

By Mr. Reycraft:

Q. Do you know what I am talking about?

A. I know what you are talking about now.

Mr. Littleton: He means transfers to surplus.

The Witness: I know what he is talking about, and I will be very happy to answer it.

One cannot transfer out the undivided profits if there aren't undivided profits to transfer out. That is No. 1 and basic.

In order to increase undivided profits, one does it through [fol. 2010] retained earnings. Should undivided profits reach a point where, through ratios and percentages it

seems as if the ratios would permit a transferance of funds from undivided profits to surplus, that certainly could be done and is done.

Q. If your bank were to sell stock as a means of increasing its capital, and therefore its lending limit, isn't it a fact that this would add to the total lending limits of Philadelphia banks?

A. You qualified your question by saying "if."

I would answer it this way, that if it might be profitable, without a dilution of earnings of presently outstanding shareholders, additional stock might be sold, and through that means a lending limit could be increased.

Q. Now, as compared with a merger situation, where what you propose to do, as I understand it, is to combine the lending limits of these two banks——

A. Yes.

Q. —this would not result in itself in an increase in the total funds for lending in the area; is that correct?

Mr. Littleton: I would like to hear that question again.

(The last question was read.)

[fol. 2011] A. The Philadelphia National's loaning limit is $8 million. The Girard's is $6 million. If those two are combined in a resultant institution, it would mean a loaning limit of $14 million. However, it is contemplated, as set forth in the application, that we would increase that lending limit by $1 million; in other words, taking $10 million out of undivided profits and moving it into surplus.

Q. This could be done without merger, could it not, the transfer from undivided profits?

A. You asked me that question before, and I said if undivided profits were of sufficient size and the ratios fitted into the over-all picture, that certainly could be done.

Q. Well, if they weren't of sufficient size, you couldn't do it.

A. You might do it, but one would not want to do it. Do you follow me?

Q. I don't follow how it is contingent upon the merger, if it is.

A. This comes into the over-all question again of size of undivided profits, the fact that undivided profits are in-

creased, generally speaking, through retained earnings. In our instance, going back over the last ten years, we would average in the neighborhood of 2½ million dollars of re- [fol. 2012] tained earnings going into undivided profits per annum. It takes quite a while to build up undivided profits sufficiently to warrant a bank reducing undivided profits and moving those funds into surplus purely for a loaning limit matter.

Q. My question, sir, is with reference to the $1 million which you proposed to add to the combined lending limits of the two banks. This could be done without any merger, could it not?

A. In our instance our undivided profits are today in the neighborhood of $15 million. In order to increase our lending limit by $1 million, we would have to take $10 million out of that undivided, which would leave $5 million in undivided profits, which would not be sufficient from our standpoint, under the lines of conservatism, to move $10 million today out of undivided into surplus. The answer then to your question is we would not do so.

Q. So that part of this comes out of the undivided profits of the Girard and part out of the undivided profits of the Philadelphia National?

A. That is right, and it is all set forth in the application.

Q. And the share attributable to your bank would be in the neighborhood of $600,000, as it applies to the loan [fol. 2013] limit?

A. I would have to look in here, which I will be glad to do.

Q. My question is, whatever your proportionate share——

A. Whatever the proportion is, correct.

Q. It is sound banking practice to make this transfer, is it not?

A. It is sound only because of the fact that the undivided profits, the category of undivided profits in the new setup, would be of sufficient size to warrant it.

Q. And this is based in part on the proportion which your bank is contributing to the undivided profits.

The Court: It is a matter of mathematics.

The Witness: That is all. It is all in here in the application, and I don't believe it is worked out percentage wise

as to size between the two banks. I think it is worked out in accordance with a formula which is set forth in the application.

By the Court:

Q. How much does Girard have in undivided profits? Do you know, Mr. Potts?

A. I do, Your Honor.

Q. What is it?

Mr. Littleton: Page 33 of the application.

[fol. 2014] A. The capital stock as of June 30 of the Girard, $16,919,000.

The Court: Undivided profits, I asked for.

A. Undivided profits, $14,059,000.

Q. $14 million for Girard and $15 million for the Philadelphia National. Between you you had $29,000,000. Take 10 out, and you still have $19 million. If you take it out of the Girard, there is only $4 million left. You say that is not good banking?

A. That is correct.

Q. If you take 10 out of yours, there is only 5 left. You say that is not good banking, but the combined have 19 left, which makes good banking?

A. Which makes good banking.

The Court: All right. I think I follow you.

We will take a 10-minute recess.

(A 10-minute recess was taken at 11:05 A.M.)

[fol. 2015] By Mr. Reycraft:

Q. Mr. Potts, at page 8 of the application, at the bottom of the page, you indicate six oil companies which have major refineries in the area. Do you know where each of these companies has its major banking affiliation?

A. Some, I do.

Q. With reference to the first, do you know?

A. Philadelphia and New York. Do you want the specific banks?

Q. Yes. With reference to the first, will you please give me that?

A. The Chase National Bank and the Philadelphia National Bank.

Q. And the second?

A. A bank in New York; I can not give you the name.

Q. Is this the major banking affiliation of that second company?

A. That is correct.

Q. The third?

A. Pittsburgh, with the Mellon National Bank.

Q. And the fourth?

A. New York; I can not give you the name of the bank.

Q. And the fifth?

A. The same answer holds true there and also with [fol. 2016] respect to the sixth.

Q. That is New York and you can't name the bank?

A. That's right.

Q. Now with reference to any of those six, do you have any basis, do you think, that they would transfer their major banking affiliation to Philadelphia if this merger should be approved?

A. We use the term "major banking affiliation" in maybe a different sense from what you are asking. A major banking affiliation would cover the larger loaning banks in any specific situation. Sometimes there is used the terminology of the main service bank and I would doubt whether, from a service angle, that the Mellon group would move out of Pittsburgh to come here to Philadelphia.

I would doubt whether Socony-Mobil, which is really a New York City account, would do likewise.

It is quite conceivable that Sinclair and Tidewater might at some time in the future because of their large refineries in this area, decide to make a move here; and certainly one of the added factors in that decision might readily be a bigger bank.

Q. This is merely conjecture at this point, however?

A. Merely conjecture.

Q. All right.

[fol. 2017] Now, at page 9 of the application you state that 26 of the nation's largest manufacturing enterprises have headquarters to Philadelphia nearer than to any other major banking center, yet only 12.9 per cent of their cash

as of December 31, 1959, was on deposit with the charter bank and only 4.4 per cent with the merging bank.

Now, can you tell me what the limitations are on those companies with respect to increasing their deposits in either of your two banks?

The Court: Read that question back.

(The pending question was repeated by the reporter.)

The Court: What do you mean "limitations"?

Mr. Reycraft: The application implies, sir, it seems to me, that these companies ought to have more deposits in these banks than they do; and I am inquiring into the reasons why they don't.

The Witness: That would encompass the basic reasons why we think this merger should take place.

By Mr. Reycraft:

Q. Is there anything comparable to a lending limit which limits the amount of deposits they can put in your bank?

A. There is a certain relationship between a lending limit and deposits.

[fol. 2018] Q. Do you know what the relationship is between the deposits which these companies have and the lending limits of your bank?

A. No.

Mr. Reycraft: Will you mark as Government's Exhibit No. 125 a one-page document headed "Answer of the Philadelphia National Bank to Questions 9 and 10."

(Document entitled "Answer of the Philadelphia National Bank to Questions 9 and 10," was marked Exhibit G-125 for identification.)

Mr. Littleton: If Your Honor please, this is one of the most confidential documents which we have handed to the Government in the answer to their request and I would ask that we be protected and that the customers be protected.

Mr. Reycraft: I have no objection to the names being omitted.

Mr. Littleton: All right.

By Mr. Reycraft:

Q. Now, Mr. Potts, with reference to the first company indicated in answer to Question 9 which the Government asked your bank, do you know who the transfer agent of that company is?

A. No.

Q. I suggest it is Fidelity-Philadelphia Tradesmens.

[fol. 2019] Mr. Littleton: What was that?

By Mr. Reycraft:

Q. And I ask you whether this report refreshes your recollection on that.

Mr. Littleton: May I ask what the witness is being shown?

Mr. Reycraft: It is a report from Standard & Poor's.

Mr. Littleton: Are you marking it?

Mr. Reycraft: Yes. I will mark it 125-A.

(Page 3054 of Over-the-Counter and Regional Exchange Reports, Standard & Poor's Corporation, May 5, 1961, issue, was marked Exhibit G-125-A for identification.)

Mr. Reycraft: 125-A also indicates that for the first depositor the registrar is the Provident Trust Company of Philadelphia and the Morgan Guaranty Trust Company of New York.

By Mr. Reycraft:

Q. Now, Mr. Potts, can you tell me with reference to Government's Exhibit No. 125 what the limitation is on that company for increasing its demand deposits in your bank?

The Court: Do you understand that question? I am confused still.

[fol. 2020] Mr. Reycraft: I would like to explain that in the application the statement is made that only 12.9 per cent of the cash of these 26 companies which are indicated is on deposit with the Philadelphia National Bank, and only 4.4 per cent with the merging bank.

By Mr. Reycraft:

Q. May I ask Mr. Potts if it is a fair reading of that application to assume that you mean that this merger would result in an increase in those deposits?

A. So far as the first company on your exhibit is concerned, I would think it was a fair assumption that should the merger be consummated we would get larger balances from this company.

Q. Can you tell me, sir, what the basis for that assumption is?

A. With a larger bank and a greater loaning limit, it is conceivable that this particular company would use us even more fully than they do today. If we give additional services, services that are greater and more full, the chances are that a corporation would recognize that fact.

Q. Now, is this related to the lending limit of your bank?

A. And other services that we could perform for them.

Q. Now, what is the relation to the lending limit?

A. This company that we are referring to has been in the past a substantial borrower and we would anticipate that in the future they will likewise be in the market for funds.

[fol. 2021] Q. And you would require a compensating balance?

A. That's correct.

Q. Of approximately how much?

A. This is just a yardstick, Mr. Reycraft, which I believe has already been mentioned in previous testimony. When a company borrows it is hoped that they will maintain 20 per cent of the borrowing with the bank.

With respect to a line of credit, which in this instance, let us say, is the lending limit, it is hoped that they will maintain at least 10 per cent of that line of credit, and should it be the total lending limit, 10 per cent of that.

By Mr. Littleton:

Q. As deposits?

A. As deposits.

By Mr. Reycraft:

Q. What has been your experience, sir, with reference to your ability to persuade borrowers to maintain 20 per cent of the loan on deposit with the bank?

A. Pretty good.

Q. Would you say that this is about an average which you are able to have the borrowers maintain with your bank?

A. If you say an average would be 50 per cent, no, it would be greater than that. We have to assess this particular area [fol. 2022] that we are referring to quite frequently and it has been a pretty happy situation.

Q. On the average, do your borrowers maintain 20 per cent of their loans on deposit with the bank?

A. Would you rephrase that? I mean, may I have the question again, please?

(The pending question was repeated by the reporter.)

The Witness: On the average, yes.

By Mr. Reycraft:

Q. And on the average with respect to compensating balances against lines of credit, is this approximately 10 per cent?

A. Yes.

Q. Now will you refer to the third company which is listed on Government's Exhibit 125?

Is there any reason why that company could not have increased its deposits with your bank without a merger taking place?

A. This company could very definitely increase their balances with us at any time.

Q. They would?

A. They could.

Q. They could? Would they if the two banks were to merge?

A. In the realm of supposition, I believe that they would.

[fol. 2023] Q. Now, if they had a maximum line of credit or a maximum loan outstanding, what would be the compensating balance that you would ask for?

A. We would expect the figures that I have mentioned,

Mr. Reycraft. I testified earlier that these percentage figures are purely a yardstick which we try to apply where and when we can.

With respect to the larger corporations, such as this No. 3 name, the chances are that this corporation would keep substantial balances with us to take care of check collections, the various services we might perform, also the standby facility of being able to borrow up to a certain amount.

Q. Now, these are services which they require in connection with the business they do in the area served by your bank; is that correct?

A. We have never defined the area served by our bank because I feel that our bank is national and international, as well as being a Philadelphia bank.

Q. Yes, but you indicated that they would take advantage of your services with respect to check collections for one.

A. Yes.

Q. Is this basically a service which is performed for business needs in the immediate area?

[fol. 2024] A. Oh, no, no. 48 per cent of our transit items (I am speaking of checks now) come from out of town.

Q. All right.

Now with respect to the third company we have been discussing, its transfer agent is the Morgan-Guaranty Trust Company, and another is the Union National Bank of Pittsburgh. Its registrars are the Bankers' Trust Company, the Pittsburgh National Bank, and the Mellon National Bank of Pittsburgh.

Do you have any reason to believe that any of these relationships would change as a result of the merger?

A. We'd try awfully hard.

Q. You are trying hard now, aren't you?

A. With a bigger bank we would have more of a selling point.

Q. Now, if this third company had the maximum loan outstanding with your bank of $8,000,000, you would ask for a compensating balance of $1,600,000, would you not?

A. (The witness nodded.)

By Mr. Littleton:

Q. The answer is yes? Don't shake your head.
A. We would ask. That doesn't mean we would get it.

By Mr. Reycraft:

Q. You would try?
A. Oh, yes.

[fol. 2025] Q. And your success has been quite good in this, as you have indicated?

A. Yes.

Q. And it now has a balance with your bank of $424,000; is that correct?

A. No, a little lower than that. You have looked at the 1959 figures.

Q. All right. $405,000 in 1960?

A. Right.

Q. So that this indicates, does it not, that within your present lending limits there is a substantial area of increase available in your banking relationship with this company?

A. Here we come into the prestige factor again, Mr. Reycraft. With a bigger bank, it stands out, it has more appeal, more drawing power.

Q. This is unrelated to your lending limit?

A. That's right.

The Court: Whose statement is that, Mr. Reycraft?

Mr. Reycraft: I beg your pardon?

The Court: Whose statement is that?

Mr. Reycraft: He agreed with me.

The Witness: It is a part of it, prestige and lending limit. As I mentioned earlier, it's hard to divorce one from the [fol. 2026] other.

If you have a bigger lending limit your prestige is greater.

By Mr. Reycraft:

Q. Do you have twice as much prestige with twice as big a lending limit?

A. Well, that's a matter of degree.

Q. Now, at the present time one of the transfer agents is the Union National Bank of Pittsburgh. Is that bank bigger than the Philadelphia National Bank?

A. No, that bank is smaller.

Q. And one of the registrars is the Pittsburgh National Bank. Is that bank larger than the Philadelphia National Bank?

A. We are running pretty much neck and neck. They are a little behind us now.

Q. So that you are in an equal competitive position with them at the present time?

A. Right.

Q. Now with reference to the fourth company on this list, it has $146,000 on deposit at the present time——

Mr. Littleton: Will you correct that to December 31, 1960; not at the present time?

Mr. Reycraft: All right. December 31, 1960, $146,000. [fol. 2027] Mr. Littleton: At that date.

By Mr. Reycraft:

Q. Now, that bank's transfer agent is the Chase-Manhattan Bank.

Do you have any knowledge as to the transfer agents of these companies, Mr. Potts?

A. No.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 125-B a one-page document, which is page 220 from Standard Listed Stock Reports, Standard & Poor's Corporation, Monday, March 20, 1961.

(Page 220 from Standard Listed Stock Reports, Standard & Poor's Corporation, Monday, March 20, 1961, was marked Exhibit G-125-B for identification.)

Mr. Reycraft: And as Government's Exhibit 125-C, page 244 from the same publication.

(Page 244 from Standard Listed Stock Reports, Standard & Poor's Corporation, Monday, March 22, 1961, was marked Exhibit G-125-C for identification.)

By Mr. Reycraft:

Q. Do you know, Mr. Potts, with reference to the remaining approximately 87 per cent of the cash which these 26 companies have, what they do with it at the present time?

Mr. Littleton: Will you read the rest of the paragraph [fol. 2028] in the application?

By Mr. Reycraft:

Q. Would you do that, Mr. Potts?

A. The Philadelphia National Bank does not know the amount of deposits, if any, maintained by any of the enterprises identified in the answer to the question.

Mr. Littleton: No, no. I am talking about the paragraph on page 9 of the application, the second paragraph.

Mr. Reycraft had you read only the first and second sentences of that.

Will you read the rest?

The Witness: The remainder of that paragraph?

> "Some of these undoubtedly have additional cash on deposit with other banks in the Philadelphia area, yet it is apparent that many of them are heavily dependent on larger banks in other cities (notably New York) for their major financial requirements."

By Mr. Reycraft:

Q. Now, does this paragraph intend to convey the impression that all of this cash is on deposit with commercial banks?

A. The exhibit that I have before me purely indicates the deposits that are held in the Philadelphia National Bank. With respect to the amounts outside, I couldn't answer.

[fol. 2029] Q. You don't know, for example, whether some of this cash is being invested in short-term securities?

A. I would imagine that, as I read the caption here, Mr. Reycraft, this is cash on deposit.

Q. Can on deposit with commercial banks?

A. I am referring to G-125. Is that what you are looking at?

Q. Well, the percentage figures given on page 9 are 12.9 per cent and 4.4 per cent. Are these percentages of total amounts of cash on deposit with commercial banks?

A. I would assume that to be cash.

Q. Cash on deposit?

A. There would be another caption. It would say security investments, investments in short-term paper, or something of that nature.

Q. All right. Could you confirm that for us, sir?

A. Certainly.

Q. This would indicate that approximately 80 per cent of the cash is on deposit with other commercial banks?

A. (The witness nodded.)

By Mr. Littleton:

Q. The reporter can't take your shaking your head. Do you mean yes?

A. Yes.

[fol. 2030] By Mr. Reycraft:

Q. Mr. Potts, what, in your opinion, will be the effect of the increased lending limit of the combined bank on the competitive position of other Philadelphia banks?

A. My first reaction is, as I have already indicated in the morning session here, that the other banks would certainly step up their competition. Size is not the entire factor in a bank, believe me.

I would feel, too, that what a larger lending limit could readily do (and we so state in the application) is attract additional business to the Philadelphia area, a part of which could readily rub off on the other banks so that they would be the beneficiaries, too.

Q. If it is a fact that the increased lending limit of the combined bank would be more attractive to large business borrowers, isn't it a fact that these large business borrowers which now do the business with your competitors in this area would be likely to transfer their business to the combined bank?

A. I don't think so.

Q. Would you explain that?

A. Relationships between a bank and a depositor, be that

depositor in the character of a loaning one or otherwise, have generally been established for quite a period of time. [fol. 2031] If there is one factor that I think banks know about it is that of inertia and that depositors are very loath to change their accounts except for good cause.

You asked about an increased lending limit. It is possible that when and if that particular corporation came into the market for funds and their funds were in excess of what the then present banks could grant them, that this particular company might readily come to the spot where they could get a bigger requirement, a bigger loaning limit.

As far as other factors are concerned, I would again repeat that an established relationship between a bank and a depositor is one which is cherished and only for cause as a rule does a depositor change their bank.

Q. And you think an increase in lending limit would not be sufficient cause?

A. Not their deposit relationships. I described it in the event that their loaning requirements increase, it is quite possible then that they would come to the spot where they could get greater accommodation.

Q. And bring their deposits with them?

A. I didn't say that.

Q. But you have testified earlier, sir, have you not, that you asked for a compensating balance of about 20 per cent?

A. That's what we would ask for, but here I am with my [fol. 2032] "but"—and this may be hard for you to understand or anyone from that standpoint—but in an area where a bank is doing business, sure, we compete against each other and are very pleased when we can get a nice juicy piece of business, but for us to go out to a depositor or a borrowing company and say, "Look here, we can give you a larger loaning limit and you reduce your balance with the XYZ Bank or banks in our area," we would hesitate doing that because it doesn't accomplish anything constructive.

Granted, during the period that a bank was borrowing from us we would ask that their cash balances be increased, if possible, we would also ask and hope that should such an increase take place that it would come from out of town and from other banks, rather than in the specific area.

[fol. 2033] Q. So that you wouldn't try to get this po-

tential business from companies which had business in other banks in the area?

A. I thought I said that we would not make a specific effort so to do. We would be very happy if—and again I repeat what I said—a juicy piece of business happened to come our way.

Q. You would be willing to take it?

A. We would be willing to take it under certain circumstances.

Q. Isn't it a fact that the 26 companies which are indicated on Government's Exhibit No. 125 all have existing banking relationships, many of them with banks other than yours?

A. Yes.

Q. Isn't it a fact also, Mr. Potts, that as a result of this merger, the proposed merger, the resulting bank would have a lending capacity approximately 78 per cent greater than that of the First Pennsylvania Company?

A. I haven't worked out those percentages. Have you got another exhibit?

Q. Just a minute. It is in the application.

A. Is it?

Q. Refer to Page 129 of the application.

[fol. 2034] A. Your question?

Q. My question is, isn't it a fact that the combined Philadelphia National and Girard Trust Corn Exchange Bank would have a lending limit approximately 78 per cent greater than that of the First Pennsylvania Company?

Mr. Littleton: Lending limit?

Mr. Bicraft: Yes. The capital and surplus figures are set forth for each of the banks on Page 129.

The Witness: Right.

Q. About 75 to 78 per cent?

A. Right.

Q. In your opinion, would this give your bank a substantial competitive advantage over the First Pennsylvania Company?

A. It would give us a competitive advantage. I am not prepared to qualify that.

Q. Will you agree that it is a significant advantage?

Mr. Littleton: I will ask Mr. Reycraft to define "significant" or "substantial" as he uses it.

The Witness: Mr. Reycraft, I will throw it back at you.

By Mr. Reycraft:

Q. Do you know what the word "significant" means?

A. I have a pretty good idea, yes.

[fol. 2035] Q. In your opinion, would it give you a significant competitive advantage?

A. Well, let's go into the latent. "Signifaco" means "signal," if I am not mistaken, and "canto" would be "singing," so there would be a significant sign that one would have as a result of this. My feeling is that when you look at percentage figures, Mr. Reycraft—and as a banker I hate to admit this—but when one looks at figures, one has to read between those figures. They can be misleading. The fact that the merged bank would have a substantial percentage figure ahead of the lending limit of the next nearest bank does not mean that, from a competitive angle, that would be in the nature of a significant one or a substantial one.

Q. So you think that the increase from eight to fourteen or fifteen million would not give you a significant competitive advantage?

A. It would give us a competitive advantage.

Q. A measurable competitive advantage?

A. A competitive advantage.

Q. Isn't this one of the purposes of the merger, to increase your competitive position?

A. One of the purposes of the merger is to protect a business that we feel rightly belongs to the Philadelphia area which is now going elsewhere.

[fol. 2036] Q. And to improve your competitive position?

A. To recapture some of the business that has gone away and to attract new business into the area.

Q. To improve your competitive position?

Mr. Littleton: Competitive position where and with whom?

By Mr. Reycraft:

Q. Is it to improve your competitive position?

Mr. Littleton: I object unless the competitive position in what area and with whom is added to the question.

By Mr. Reycraft:

Q. First start with the four-county area.

A. In the four-county area a larger bank, such as the merged bank, would improve to a degree its competitive position.

Q. You testified in answer to my other question that you wished to recapture certain business in the Philadelphia area. Can you tell me what business you have in mind? Any particular business?

A. I haven't got anything specific. This comes into the category of businesses that we know have gone to New York City.

Q. You don't have anything specific?

A. I have nothing specific.

[fol. 2037] Q. On Page 10 of the application you give as the third reason for the merger, ". . . the need to retain and attract quality and depth in management, and to develop the more higly trained specialists required by the increasingly complex banking needs of an industrial community."

You believe this merger would permit you to do this; is that correct?

A. Yes.

Q. Would this give you a competitive advantage over other banks in the Philadelphia area?

A. As I stated earlier, Mr. Reycraft, when a merger does take my place, my experience has been that other banks mend their own fences.

Q. In other words, they improve the quality and depth of their management?

A. That is correct.

Q. Is it your assumption that they would do this without mergers?

A. It is my assumption that should this merger go through and that we develop or attract additional specialists in certain areas—I mentioned earlier investments and otherwise

—that our competitors in the area would certainly do their best to develop and/or take on men of similar caliber.

Q. And you think they can do this without merger?

[fol. 2038] A. They can do that wherever they feel that it would be constructive and profitable for them to do it. What I am referring to here is that in a larger situation one can generally pay higher wages, attract men with greater knowhow, and/or women, and that it can be done economically. The reason in a smaller bank that there is not greater specialization is because of the fact, from the standpoint of those particular managements, they do not feel that it would be profitable for them to pursue that course.

Q. So that the merger would give you a competitive advantage over other Philadelphia banks in attracting specialists; is that correct?

A. I don't consider that other Philadelphia banks fit into the small category. I consider that the other Philadelphia banks are substantial institutions, and what I said there was that, mentioning profitability, size, I would think that the other banks in Philadelphia could very readily and profitably fit in higher costs of this nature into their own pictures.

Q. You think they can do it within the limits of their existing size?

A. I have said, in my estimation, I think they are substantial banks, and as far as limits are concerned, I could not confine that in this instance.

[fol. 2039] Q. And your bank, being the second largest bank and nearly as large as First Pennsylvania, has the same opportunity, does it not?

A. We have the same opportunity to a degree, yes.

Q. What would be the difference between your bank's ability to accomplish the result of attracting more qualified personnel and that of the First Pennsylvania?

A. Are there any First Pennsylvania Company men in here?

I would say none.

Q. Mr. Potts, in your judgment, what is the single most important benefit of the merger which you propose?

A. To whom?

Q. To the two banks.

A. To the two banks. In my judgment, the single most important benefit to the two banks would be the prestige factor, which would include larger lending limit, greater facility to handle what would be hoped for increased volume of business.

Q. And what, in your judgment, is the most important single benefit to the community?

A. Having a larger bank, with a lending limit of $15 million, the largest single factor benefiting the community would be the attraction initially of new business which might have gone elsewhere, the possibility of recapturing business which has gone to other financial centers, and, thirdly, to [fol. 2040] hold onto the new business which we now have.

Q. Wouldn't it be necessary for the First Pennsylvania Company to acquire these same advantages in order to compete with your bank on an equal basis?

Mr. Littleton: Objected to as arguing with the witness.
The Court: Sustained.

By Mr. Reycraft:

Q. Mr. Potts, are you familiar with the Provident Mutual Life Insurance Company?

A. In a general way, yes.

Q. Do you consider that this institution is in competition with your bank?

A. To a minor degree and only in larger loans that require longer maturities.

Q. Does your bank have any relations with the Provident Mutual Life Insurance Company, such as selling mortgages to them? Do you make a practice of selling them mortgages?

A. I can't answer that.

Q. You have a director who is a director of both your bank and the Provident Mutual; is that correct?

A. That is correct.

Q. Is the Western Saving Fund Society a competitor of your bank?

A. They are a competitor in two areas. One is for [fol. 2041] savings deposits and the other is in the mortgage field.

Q. Those are the only two areas?

A. That is right.

Q. The president of that society is a director of your bank, is he not?

A. No, not now.

Q. He was at the time of the application?

A. He was at the time.

Q. And he has since resigned?

A. Not from our bank directorship, but from the presidency of the Western Savings Fund.

Q. With reference to the other director, Mr. Bradshaw, is he still a director of your bank?

A. He is.

Q. Is he still president of the Provident Mutual Life Insurance Company?

A. Yes.

Q. Is he a director of the Provident Mutual Life Insurance Company?

A. Yes.

Q. Are you familiar with the Penn Mutual Life Insurance Company?

A. Yes.

Q. Is that company a competitor of your bank?

[fol. 2042] A. In the same way that I mentioned with respect to the Provident Mutual, to a limited degree, and only with respect to larger loans that require longer maturities.

Q. Is Mr. Floyd Starr still a director of your bank?

A. Yes.

Q. Is he a director of the Penn Mutual Life Insurance Company?

A. Yes. May I qualify that?

Q. Yes, sir.

A. I am not sure he is a director of the Penn Mutual Life.

Q. But he is financial vice president?

A. He is financial vice president.

Q. Mr. Potts, will you refer to Page 43 of the application. Toward the bottom of the page a list of banks is set forth, in response to the requirement in the application, "Assign consecutive numbers and provide the following information with respect to the head office of the Charter Bank.

Merging or Consolidating Bank, and each other commercial bank competing within the 'service areas' of the Participating Banks."

Now, is each of these banks which is listed between Page 43 and Page 71 a commercial bank competing with the Philadelphia National Bank?

[fol. 2043] A. Through Page 51, did you ask?

Q. Yes, the list begins on Page 43.

A. Through 51?

Q. It continues through 71, I believe.

A. Yes, I see.

The Court: The first question is, are they all commercial banks.

By Mr. Reycraft:

Q. Sir, I was incorrect. The banks themselves are listed on Pages 43 to 51.

A. That's right. That's what I thought.

Q. The branches follow.

A. These are commercial banks.

I would like to answer your question in this manner, that the smaller banks—for instance, here is the First National Bank of Riegelsville, which is northwest of us 44 miles, I could hardly call a competitor to either the Charter Bank or the Merging Bank. I don't like to generalize. I would say that the larger banks listed here, such as the Broad Street Trust Company, the Brown Brothers Harriman, Bryn Mawr Trust Company, Fidelity Philadelphia Trust, and others of that category, would be competitors to a greater or lesser degree of the two banks under consideration, but some of the smaller country banks in the hinter-[fol. 2044] lands would only be a competitor to a very minor degree, if at all.

By Mr. Littleton:

Q. Are you talking about your head office now or your branches?

A. It says head office.

Q. Are you limiting your statement that they are not competitors to your head office or are you including your branches?

A. The question was, as is listed here, " . . . the following information with respect to the head office of the Charter Bank, Merging or Consolidating Bank, and each other commercial bank competing within the 'service areas' of the Participating Banks."

The bank's areas would include the branches, so that my reply to you would be all-inclusive.

Q. What do you mean by all-inclusive?

A. When I say all-inclusive, I have stated that with respect to the larger banks that are here in central city, mentioning Broad Street Trust, Brown Brothers Harriman, Fidelity-Philadelphia, as a case in point, that they would be obviously competitors to the charter bank and the consolidating bank.

Q. At the head office?

A. At the head office.

Q. Mr. Reycraft's question goes to the entire four [fol. 2045] counties, which would include your branches.

A. That is correct. With respect to the branches, the banks listed here would be competitors generally to a limited degree. Those in a small category practically not at all. Those in a larger category, probably again to a limited degree.

Q. I direct your attention ——

Mr. Reycraft: May I conduct the examination.

Mr. Littleton: Yes, certainly, go ahead.

By Mr. Reycraft:

Q. With reference to the Bank of Old York Road, is this bank a competitor of your bank?

A. To a limited degree, if at all.

Q. The Bridgeport National Bank?

A. The same reply.

Q. The Bucks County Bank and Trust Company?

A. Practically nothing in the way of competition from Perkasie.

Q. The Chalfont National Bank?

A. To a limited degree, if at all.

Q. The Cheltenham National Bank?

A. For the record, I will say in answer to this question, I would like to state here and now that with respect to

our correspondent banks, and in their particular area, that [fol. 2046] we in the Philadelphia National Bank do not go out seeking business to take it away from the local bank.

Q. This is your bank policy?

A. That is our bank's policy. With respect to the Cheltenham National Bank I can assure you that the competition there is very limited, if at all, and it should fall under the umbrella that I have just stated to you, which is that it is our policy in the Philadelphia National Bank not to go out competing with our correspondent banks.

Q. The Cheltenham National Bank is one of your correspondents; is that correct?

A. That is correct.

Q. Is this by agreement with the bank that you don't solicit in their area?

A. It is a tacit understanding between the heads of the banks.

Q. With all of your correspondent banks?

A. Yes. I can assure you that if our representatives go into an area, let us say Cheltenham, and we solicit business which is part and parcel of the Cheltenham National Bank's bailiwick, we would hear from it very quickly.

Q. It would disturb your correspondent relationship?

A. Yes.

[fol. 2047] Q. Now, with reference to Citizens and Southern Bank and Trust Company, is that bank in competition with your bank?

A. To a very limited degree. We don't have any branches nearby, and they are not strictly a commercial bank such as we. Their loaning limit, I believe, is very small in relationship to ours. They, I am sure, make perosnal loans, probably automobil loans, in the category of small loans. It is quite possible that on the fringe they might be competing, but to a very minor degree.

Q. The Collegeville National Bank?

A. The Collegeville National Bank, since this application was presented, has merged with one of the central city banks, the Provident Tradesmens, and as such it would be a definite competitor.

Q. The Delaware County National Bank?

A. The Delaware County National Bank is in competition with our branch offices in Chester, as well as with those of the Fidelity-Philadelphia Trust Company here in this city.

Q. Do you consider it to be in competition with your head office?

A. It could be, with respect to a limited number of large [fol. 2048] corporations in the area which might be borrowers, and then the competition would only be to the extent that the local bank could loan the larger corporation. They would have a small lending limit, and it is possible that, with respect to large individual depositors, they might be in competition with us, the head office.

Q. I realize you can't be too specific, but what do you mean by larger in deposits and the area of loans? What range do you have in mind?

A. Well, Chester is a very heavily industrialized area, and as one rides down the Pennsylvania Railroad to Wilmington, you can see Baldwin-Lima-Hamilton Corporation ——

Q. My question is, large in terms of dollar amount for deposits? You indicated they would be in competition for large deposits.

A. Oh, goodness. I think that's too broad a word. I couldn't answer that. I am speaking of the potential of large individual deposits from, let us say, the heads of those corporations in the area.

Q. Is the Doylestown National Bank and Trust Company in competition with your bank?

A. To a very limited degree, if at all.

Q. And the Boylestown Trust Company?

[fol. 2049] A. No.

Q. The Elkins Park National Bank?

A. To a limited degree, if at all.

Q. The Fidelity-Philadelphia?

A. They are in definite competition with our head office.

Q. Will you agree that they are in substantial competitions?

A. Oh, yes.

Q. The First National Bank of Riegelsville?

A. Very, very limited, if at all.

Q. The First National Bank and Trust Company of Newtown?

A. To a limited degree, if at all.

Q. The First Pennsylvania Bank and Trust Company?

A. Competitive.

Q. The Frankford Trust Company?

A. Competitive.

Q. And the Girard Trust Corn Exchange Bank?

A. Competitive.

Q. The Harleysville National Bank and Trust Company?

A. Practically nothing, if at all.

Q. Industrial Trust Company?

A. Competitive.

Q. The Jenkintown Bank and Trust Company?

A. Here we come into a similar situation, which I [fol. 2050] described with respect to the Cheltenham Bank, where this is a correspondent of ours. We endeavor not to go into their area, and yet, probably in the category of smaller loans, automobile loans, and maybe in certain other minor areas, we might be competitive.

Q. Limited in the same way as your earlier statement with respect to the Chalfonte?

A. Cheltenham.

Q. The Liberty Real Estate Bank and Trust Company?

A. Yes, they are competitors.

Q. The Marian Bank?

A. I couldn't put them in a competitive category with us.

Q. The Montgomery County Bank and Trust Company?

A. Yes.

Q. The Morrisville Bank?

A. To a limited degree, if at all.

Q. That is 27 miles away from your head office?

A. From the head office, but they are in the area of our Bristol banks, out in Levittown.

Q. About how far is that, Mr. Potts?

A. From our nearest branch there?

Q. Yes.

A. Three or four miles.

Q. The National Bank of Chester County and Trust Company?

[fol. 2051] A. We, through regulations, are not permitted to open branches except in an immediately adjacent county. Chester County is outside the regulation, so that

it limits the competition very severely between, let us say, what we are discussing and the National Bank of Chester County.

Q. It is in another county?

A. It is in another county.

Q. The National Bank of Royersford?

A. That is 25 miles away. We have a branch out in Pottstown, which is not too far removed, probably five or six miles. The competition would be de minimis.

Q. The National Bank of Schwenksville?

A. Same reply.

Q. The Peoples National Bank and Trust Company of Norristown?

A. They are in our competitive area.

Q. And are they in competition with your bank?

A. Yes.

Q. The Peoples National Bank of Souderton?

A. To a very limited extent, if at all.

Q. The Perkiomen National Bank?

A. To a very limited extent, if at all.

Q. That bank has since merged, has it not, sir, with Industrial Trust?

[fol. 2052] A. Perkiomen, I think that is right.

Q. The Provident Tradesmens Bank and Trust Company? I think there is no question about that.

A. No question.

By Mr. Littleton:

Q. That is competitive?

A. About as competitive——

By Mr. Reycraft:

Q. It is competitive?

A. It is competitive.

Q. The Quakertown National Bank?

A. Hardly at all. The competition would be de minimis.

Q. The Second National Bank of Philadelphia?

A. This is one of the smaller banks in the city. Competition would be only with respect to smaller loans, particularly in the personal category. Competition is very small.

Q. The Security Trust Company of Pottstown?
A. Competitive in the Pottstown area.
Q. The answer is yes, it would be competitive?
A. In the Pottstown area.
Q. It is 32 miles away.
A. We have a branch in Pottstown.
[fol. 2053] Q. How far away from this bank?
A. Oh, about a mile and a half.
Q. The Sonsitaly Bank and Trust Company?
A. To a very, very limited degree.
Q. The Solebury National Bank of New Hope?
A. I could not, in all fairness, say that they are competitors.
Q. The Union National Bank and Trust Company?
A. To a very limited degree, if at all.
Q. The Audubon National Bank?
A. The same reply.
Q. To a very limited degree?
A. To a very limited degree, if at all.
Q. The Bank of Levittown?
A. I can't see any competition there.
Q. The Bordentown Banking Company?
A. It is a little bigger bank. Competition would be de minimis.
Q. The Broad Street National Bank?
A. That is:

Mr. Littleton: Of Trenton.
The Witness: To a very limited degree, if at all.

By Mr. Reycraft:

[fol. 2054] Q. The Burlington Bank and Trust Company?
A. Competition would be de minimis.
Q. The Burlington County Trust Company?
A. De minimis.
Q. The Camden Trust Company?
A. To a limited degree.
Q. The Cinnaminson Bank and Trust Company?
A. Competition would be de minimis.
Q. The Farmers and Mechanics National Bank and Trust Company of Woodbury?
A. The same reply, de minimis.

Q. The Farmers National Bank of Mullica Hill?
A. That is a very small bank.
Q. And your answer, sir?
A. Competition practically none.
Q. The Farmers Trust Company, Mount Holly?
A. Competition would be practically nil.
Q. The First Camden National Bank and Trust Company?
A. Competitive.
Q. To what degree?
A. They are one of the larger banks in Camden, and to that extent they would be competitors, competitors to us in the industrial loan category. I wouldn't think in any of [fol. 2055] the retail or personal loan categories. More from the standpoint of industry and the larger ones in their area.
Q. Does the First Camden participate with your bank in any loans?
A. Yes.
Q. Do you know how many?
A. No.
Q. What about the First National Bank and Trust Company of Beverly?
A. I would not say they are in competition with us.
Q. The First National Bank of Bordentown?
A. To a very limited degree, if at all.

The Court: We will go on at 2:00 o'clock, Mr. Reycraft.

[fol. 2056] [File endorsement omitted]

AFTERNOON SESSION

Present: Counsel as previously noted.

PLAINTIFF'S EVIDENCE (Resumed)

FREDERIC A. POTTS, resumed.

Direct examination (Resumed)

By Mr. Reycraft:

Q. Mr. Potts, will you direct your attention to the First National Bank of Collingswood at page 48 of the application and tell me whether that bank is in competition with your bank?

The Court: Allenwood?

The Witness: Collingswood.

Mr. Reycraft: Collingswood. No. 333.

The Court: Two different places—Allenwood happens to be a prison farm.

The Witness: To a minimum extent, if at all, and only in a particular service area.

By Mr. Reycraft:

Q. The First National Bank of Hamilton Square?

[fol. 2057] A. Even to a less degree than my answer to the Collingswood bank, but the same answer would hold.

Q. The First National Bank of Marlton?

A. To a very minimum degree, if at all, and only in that area.

Q. And the First National Bank of Paulsboro?

A. The same answer would apply there.

Q. The First National Bank of Riverside?

A. The same answer; in other words, to a minimum extent, if at all, and only in that service area.

Q. And the First National Bank & Trust Company of Roebling?

A. The same answer would apply there.

Q. And the First National Bank & Trust Company of Westville?

A. Likewise.

Q. The First National Bank & Trust Company of Woodbury?

A. The same reply.

Q. The First Trenton National Bank?

A. Competition would be somewhat larger. It's a bigger bank in a larger city, but the competition would be to a minimum degree and confined to that service area.

Q. The Haddonfield National Bank?

A. To a minimum degree, if at all, and only in the service area.

Q. The Mechanics National Bank of Burlington?

[fol. 2058] A. The same reply would hold there.

Q. The Merchantville National Bank & Trust Company?

A. Likewise.

Q. The National Bank of Mantua?

A. To a very minimum degree, if at all, and in the service area out there only.

Q. The Peoples National Bank of Laurel Springs?

A. The same reply.

Q. The Riverside Trust Company?

A. Likewise.

Q. The Security National Bank of Trenton?

A. Still to a minor degree, if at all, it being one of the smaller banks up there, and only in the particular service area.

Q. The Swedesboro Trust Company?

A. That's a very small bank. Competition would be limited, if at all, and only in the area.

Q. The Third National Bank & Trust Company?

A. The same answer holds there.

Q. The Trenton Trust Company?

A. Here is a bigger bank in a larger area. Competition would be greater, but still limited and in the service area.

Q. How far is that from your nearest office, sir?

A. Four or five miles.

[fol. 2059] Q. The Union National Bank——

The Court: What was that?

By the Court:

Q. Where are you figuring your office from, Morrisville or Bristol?

A. Yardley.

The Court: Yardley?
Go ahead.

By Mr. Reycraft:

Q. The Union National Bank & Trust Company of Mount Holly?

A. This is a small bank; competition only to a limited degree, if at all, and only in the particular service area.

Q. The Woodbury Trust Company?

A. The same reply would hold through there.

Q. The Yardville National Bank?

A. The same reply.

Q. The Bank of Delaware?

A. Well, here we go into a different state. This is a bigger bank. Our competition there would be chiefly confined to larger loans and conceivably with respect to larger individual depositors.

Q. By larger loans, sir, would it be fair to assume you mean above $100,000?

A. I'd like to see it a little higher than that, two fifty, [fol. 2060] in that area.

Q. All right. The Colonial Trust Company?

A. Well, this is one of the smaller banks in Wilmington. Competition is really to a limited degree.

Q. And the Commercial Trust Company?

A. The same reply there.

Q. The Delaware Trust Company?

A. The Delaware Trust Company is a larger one of the trust companies there. Competition would be limited to the larger borrowers and also the larger individual depositors.

Q. Once again, you prefer the $250,000 figure?

A. Yes.

Q. The Farmers' Bank of the State of Delaware?

A. This is the second largest of the banks in—well, this is Dover, isn't it?

They have one of their main offices in Wilmington, too, Mr. Reycraft, as well as the Dover office and I believe one or two others.

This bank would be in a competitive position as far as larger loans are concerned and conceivably with respect to certain larger depositors.

Q. Now, the figure 67 miles, you say, should perhaps be amended to maybe 26 for the nearest office?

A. I think—you see——

[fol. 2061] Q. That is the head office.

A. This is the head office. They have got four branches in Wilmington. The head office is not in our service area, but their branch offices in Wilmington would fit into the category that I have just given you.

Q. All right.

Would the Peoples Bank & Trust Company?

A. Well, this is a smaller one; limited competition and in that are- solely.

Q. And the Wilmington Trust Company?

A. The Wilmington Trust Company is the largest bank in Wilmington. We would be in competition with them, still to a limited extent and confined chiefly to the larger borrowers and larger depositors.

I could add here that we probably would be in competition, too, for certain trust business.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 126 a letter dated July 16, 1953, from Arthur Littleton to L. A. Jennings, Esq., First Deputy Comptroller of the Currency, attached to which is a two-page memorandum for the files dated July 9, 1953, the memorandum being signed by L. A. Jennings, Deputy Comptroller of the Currency, and will you mark the memorandum as 126-A?

[fol. 2062] (Letter dated July 16, 1953, from Arthur Littleton to L. A. Jennings, Esq. was marked Exhibit G-126 for identification.)

(Two-page "Memorandum for the Files," dated July 9, 1953, signed by L. A. Jennings, was marked Exhibit G-126-A for identification.)

By Mr. Reycraft:

Q. Mr. Potts, will you examine Government's Exhibits Nos. 126 and 126-A?

A. Yes.

Q. Do you recall the conference which is reported in the memorandum of July 9, 1953?

A. Yes, I do, to a limited degree.

Q. Do you recall pointing out to Mr. Jennings "that both The Philadelphia Company and the Girard Corn Exchange Bank were 'breathing down the neck' of the Philadelphia National and this had been brought about in no small way through aggressive expansion programs"?

A. I don't recall using the term "breathing down the neck," but I am certain that that was illustrative of our comments at that time.

Q. And that reflected your state of mind as you recall at the time?

A. That reflected the state of mind.

Q. All right.

[fol. 2063] Mr. Potts, will you refer to page 80 of the application?

Now with reference to the growth table which is set forth at page 80 of the application, I call your attention to the fact that the Footnote A, which is next to the charter bank and the merging bank, indicates that the growth rates of those two banks were computed by excluding deposits and loans acquired by merger as of the date of the merger.

A. Yes.

Q. And also the fact that it appears that the figures for the member banks in the Third Federal Reserve District and all active banks in the United States and possessions to include mergers.

Is my understanding correct?

A. May we have the question again, please?

Mr. Reycraft: Would you read it, please?

(The pending question was repeated by the reporter.)

The Court: Do you mean that statistics are always kept on that basis?

Mr. Reycraft: No, Your Honor. As I understand this exhibit, at page 80, it shows a lower growth rate for the

combining banks as compared with member banks in the Third Federal Reserve District and as compared with all of [fol. 2064] the banks in the United States.

Now, my question which I intend to put to Mr. Potts is whether, in order to have a valid comparison, one should not include mergers in both places or in neither.

The Court: Oh, I would agree to that, and I think he will, too.

The Witness: I can't answer the question because I don't know.

By Mr. Rexcraft:

Q. All right, but you would agree with me that in order to have a valid comparison——

A. Yes.

Q. —it ought to be one way or the other?

A. Definitely.

Q. Would you, Mr. Potts, be willing to check this with your associates after the testimony is finished for the day?

A. I will be glad to.

Q. Mr. Potts, will you refer to page 95 of the application?

A. Yes.

Q. In the first paragraph under Exhibit B, headed "Insurance Companies," would you read the last sentence, please?

A. "The long-term borrowings have tended to gravitate toward the insurance companies, while commercial banks are more active in the field of short-term loans."

[fol. 2065] Q. And this has been your experience, I take it?

A. That's right.

Q. Now will you refer to page 97 of the application?

A. Yes.

Q. At the end of Paragraph (f) would you read that sentence?

A. The third paragraph?

Q. Yes, sir.

A. "It can be said in general about the types of institutions described in the above paragraphs that in contrast to those covered by Exhibit B, the intensity of competition with commercial banks fluctuates widely and is generally relatively unimportant."

Q. And the institutions referred to are insurance companies, credit unions, sales-finance companies, personal-loan companies, factors, and direct-lending agencies of the Government; is that correct?

A. The various factors or segments of the loaning field, as you have illustrated them, would fit in under this coverage.

I might add, though, that I feel the section where it states, "the intensity of competition with commercial banks fluctuates widely" should definitely be underlined.

The generally relatively unimportant is a matter of relativity—amounts of loans, sizes of loans, and there is quite a difference in degree with respect to these four or five [fol. 2066] direct-lending sources that are mentioned here.

For instance, sales-finance companies are in much greater competition with the commercial banks than are credit unions.

Q. You stated with reference to credit unions at page 95, in the middle of that paragraph, "probably the severity of this competition is not great;" is that correct?

A. Up to the moment.

Q. And that was your opinion?

A. Yes.

[fol. 2067] Q. Mr. Potts, at the beginning of Page 99 there is a heading "Mutual Accounts." Can you explain for the record what "mutual accounts" means as it is used in the application?

A. "Mutual Accounts" means where a single corporation would have an account with the charter bank and with the merging bank. There are 392 such mutual accounts.

Q. It is mutual checking accounts, isn't it?

A. That is correct.

Q. You said corporations, Mr. Potts, but I wonder if it might not include individuals or partnerships?

A. It would.

Q. It could be individuals, partnerships, or corporations?

A. It could be.

Q. At Page 103 of the application reference is made, under the heading "Charter Bank," to the fact that there were 115 participations given by your bank between January 1, 1959, and December 31, 1959. Is my understanding of that paragraph correct?

A. Yes.

Q. And these are loans which were originated by the Philadelphia National Bank?

A. That is correct.

Q. Do you know whether any of these participations [fol. 2068] which were given by your bank were given because of the amount of loan was in excess of your bank's lending limit?

A. Could be, Mr. Reycraft. I couldn't put my fingers on it it specifically.

Q. Would it be possible for you to get that?

A. Yes, indeed.

Q. Now, with reference to the total amount of the loans originating in your bank during the period referred to as to which participations were given, your bank gave out to other banks $34,632,000, is that correct, and you retained $46,348,000?

A. That is correct.

Q. And with reference to Exhibit O of the application, which is the letter from Mr. Bicks of December 22, which was referred to this morning—I will get that for you.

(Exhibit G-123-A handed to the witness.)

Q. With reference to the second page of G-123-A, do you agree with me that only two of the loans outstanding at your bank at that time were at the lending limit of your bank?

A. That is right, as of that particular moment.

Q. And also there were none at the Girard Trust Corn Exchange Bank?

A. As of that particular moment.

[fol. 2069] Q. At the lending limit?

A. Right.

Q. And with reference to lines of credit to the maximum which your bank could give at that time, there were only 15; is that correct?

A. Well, I make it 16.

Q. All right, I will take your figure.

A. But let me say this: You said lines of credit would be given. That were given as of that time.

Q. Which were given, that is what I meant to say.

A. Right.

Q. And the information with reference to the Girard indicates that there were four at the maximum which the Girard could give at that time, or gave at that time?

A. That is right.

Q. And in order to make it completely clear, this is the maximum which your bank could give to any one customer?

A. That is right.

Q. Mr. Potts, would you agree with me that the financial history of your bank has been excellent or how would you describe it?

A. There were periods, shall I say, of great vicissitude in the earlier days. Following those vicissitudes, and after [fol. 2070] the national charter was granted, I would say that the history was excellent.

Q. And the adequacy of your capital structure at this time?

A. Adequate.

Mr. Littleton: You mean today?

Mr. Reycraft: Today.

The Witness: Adequate.

Q. And the future earnings prospects of your bank today?

A. Reasonably good.

Q. And the general character of the management of your bank?

A. Reasonably good.

Mr. Reycraft: That is all I have.

Cross-examination.

By Mr. Littleton:

Q. Mr. Potts, while you have G-57 before you——

A. That is the application?

Q. Yes. Will you look at Page 97. Mr. Reycraft had you read the last full paragraph on the page, which says:

"It can be said in general about the types of institutions described in the above paragraph that, in contrast to those covered by Exhibit B, the intensity of competition with commercial banks fluctuates widely [fol. 2071] and is generally relatively unimportant."

That is the third paragraph of Section F, is it not?

A. It is.

Q. The title to which is what?

A. "Direct Lending Agencies of Government."

Q. And there are two other paragraphs in F before the third paragraph which I read to you; is that correct?

A. That is correct.

Q. Those two other paragraphs in F which you referred to and the last paragraph which I read to you, where it says, "It can be said in general about the types of institutions described in the above paragraph . . ."

What is meant by "in the above paragraphs"? The other two paragraphs in F

A. The other two paragraphs in F.

Q. Will you also, while you have it before you, turn to Page 96 of G-57. Do you have it?

A. Yes.

Q. Mr. Reycraft had you read something from Paragraph D, I believe, which is headed "Personal Loan Companies." Will you read us the last sentence on that page. [fol. 2072] A. "Since the personal loan business of these companies is largely centered in the area in which each is located, and since the business they do is also done by commercial banks, the personal loan companies give active and important competition in the field of small loans to individuals."

Q. And going on back to Page 95, under Paragraph B, headed "Credit Unions," will you read that last sentence in that paragraph.

A. "Nevertheless, credit unions are a potential source of competition; the credit union yearbook has reported that while commercial banks throughout the country increased their assets 235 per cent from 1940 through 1959, credit unions increased their assets 1533 per cent during the same period."

Q. And on the next page, under Paragraph C, "Sales Finance Companies," will you read us from the second paragraph, second sentence, which I don't think Mr. Reycraft had you read.

A. This has to do with sales finance companies, and the last two sentences are, "It is believed that the major share . . ."

Q. No, no, the second sentence in the second paragraph. Begin there.

[fol. 2073] A. "If we assume that of the 52,634 new vehicle registrations in Philadelphia County alone in 1959, 65 per cent were financed at an average amout of $2500, the total dollar amount of financing in that year in that county alone would exceed $85 million. On the same basis there would have been over $69 million of new vehicle financing in 1959 in Delaware and Montgomery Counties. It is believed that the major share of this business is probably handled by motor vehicle sales finance companies. Accordingly, the competition they furnish commercial banks in this field is active and substantial."

Q. Now will you turn to Page 80 of G-57, on which Mr. Reycraft interrogated you. There was some discussion, some question on his part, about the elimination or the exclusion of deposits and loans acquired by the merger. In this growth record read us Note (a) which has to do with the charter bank and the merging bank.

A. Note (a) states, and I quote, "Excludes deposits and loans acquired by merger, as of the date of merger——

"Charter Bank—deposits $172,968,000; Loans $41,354,-000

"Merging Bank—deposits $124,165,000; Loans $45,526,-000."

[fol. 2074] And I direct your attention to Note (b), with respect to the commercial banks in Philadelphia. What does Note (b) say?

A. "Excludes deposits and loans acquired by merger of banks in other counties, as of the last published dates——"

In other words, the comparison with the commercial banks in Philadelphia excludes deposits and loans acquired by mergers from such banks, as well as from the charter bank and the merging bank?

A. That is right.

Q. And the comparison between the percentage of growth as a result of deposits of the charter bank and all commercial banks in Philadelphia is what, so far as deposits are concerned?

A. The charter bank growth, 15.15 per cent; merging bank, 8.42 per cent in deposits.

Q. How about all commercial banks in Philadelphia?

A. Commercial banks in Philadelphia, growth from deposits, 23.38 per cent.

Q. Give us the same figures for loans.

A. Loans, growth in the charter bank, 203.84 per cent. In the merging bank, 141.47 per cent. For commercial banks in Philadelphia, 158.65 per cent.

Q. And do you understand from Note (a) and Note (b) that all those figures and comparisons exclude deposits and [fol. 2075] loans acquired by merger?

A. I do so understand.

Q. Now will you turn your attention to Page 43 of G-57, which is headed "Convenience and Needs of Community." Do you have it?

A. I do.

Q. And it is from this list, the list which follows, that Mr. Reycraft questioned you at length about competition?

A. Right.

Q. Will you read us the paragraph numbered 1, which is the note to population of head office service area.

A. "The service area of the Head Office of the Philadelphia National Bank is considerably larger than the service area of the Bank as a whole. In order to account for 75 per cent of the 'IPC' deposits of the Head Office it is necessary to include the entire states of Pennsylvania, New Jersey, and Delaware."

Q. Do you want to continue?

A. "In the case of the Girard Trust Corn Exchange Bank, 75 per cent of the 'IPC' deposits are from within the City of Philadelphia and therefore the City alone is designated as the service area of the head office."

Q. Mr. Potts, you are not familiar, are you, with the study which has been made of the deposits in the entire [fol. 2076] service area covered by this section?

A. I am not, no.

Q. And when you were answering Mr. Reycraft's question, you answered him with regard to deposits within that service area?

A. I am not entirely familiar with that, no.

Q. You are not familiar?

A. No. Those were generalizations.

Q. When you said that certain banks in there are not competitive with your bank, you had no reference to deposits, then, in the particular areas of those particular banks; is that correct?

A. My statement was that they might be competitive in certain areas with respect to larger loans. With respect to the retail type of business, smaller deposits, the answer would be no.

Q. Do you know anything at all about deposits within the respective service areas of those banks which were individually named to you by Mr. Reycraft?

A. In each area as a group?

Q. Yes.

A. I have no figures there.

Q. Nor of your branches?

A. No.

[fol. 2077] Q. Mr. Potts, on Thursday Mr. Reycraft asked you a number of questions about the successive mergers which your bank had with smaller banks beginning approximately in 1951. Will you tell us why your bank went into this program.

A. Chiefly to follow our business, which was expanding in the areas, and also to follow the population growth in the various sections surrounding the city.

Q. Prior to this time will you describe the nature of the Philadelphia National Bank.

A. Prior to the decision to merge initially with the Ninth Bank and Trust Company in September of 1951, the Philadelphia National Bank was in the so-called wholesale commercial business. I mentioned in testimony last Thursday to the effect that the bank at that time had only 11,000 to 12,000 accounts, of which 1000 was represented by foreign banks and by domestic correspondent banks.

Q. Why did you change your policy?

A. We changed our policy because of the fact that in the Philadelphia area there had been and was continuing to be a very substantial expansion in commercial and industry business, and as I indicated, we all, of course, are fully aware of the population explosion which has taken place throughout the country. In the large urban centers

there has been a movement, which was becoming more pronounced, for the population to move from the urban [fol. 2078] centers to the outlying districts. As a result of these two phenomena, if you want to call them that, the decision was made in the Philadelphia National Bank to go into the retail banking field.

Q. Let me ask you right there, at this time how many banking offices did the Philadelphia National Bank have?

A. The Philadelphia National at that time had three banking offices, one the head office at 1416 Chestnut Street, our main operating office at 421 Chestnut Street, and a small hole in the wall out at 30th Street really to take care of Pennsylvania Railroad payroll days.

I might add, Mr. Littleton, that prior to the move at the bank into the retail field, that this bank was known as a banker's bank. We had a large correspondent network. So if you can follow me and visualize the type of bank the Philadelphia National was, here we were in the wholesale with few accounts. We had large correspondent bank relationships, close relationships with the larger corporations and certain large individual depositors in the area.

[fol. 2079] Q. When you say you had few accounts, do you remember about how many?

A. Yes. We had 11,000 to 12,000 accounts only.

Q. Did you have any personal-trust services?

A. We had no personal-trust services. We had no Consumer Loan Department, we had no savingts accounts, we had no safe-deposit boxes.

Q. Any special-checking accounts?

A. We had no special-checking accounts.

Q. And you said you had no safe-deposit department?

A. No safe-deposit boxes.

Q. What, then, was your reason and purpose for changing your policy?

A. It was an important decision as far as the bank was concerned, particularly looking toward the future. It certainly was management's viewpoint at that time, and I am going back now to 1950, that if the Philadelphia National Bank was to maintain its position, the quality of its services, the reputataion that it had, that it could no longer confine itself solely to this wholesale type of business. It became more and more evident that there was a change taking

place in the character of deposits, that the importance of the corporate deposit was lessening and that the deposit of individuals was becoming more and more of a factor [fol. 2080] in the over-all banking picture.

Q. Was industry moving out, also, as well as individuals?

A. Industry was also moving out, as is illustrated by plants which have sprung up around the city in what we call our ten-county Delaware Valley area.

Q. How many of these mergers did you engage in over the period 1951 to 1958?

A. There were eight such mergers.

Q. And what did that add in lending limit?

A. These mergers added $1,144,000 to our lending limit.

Q. Tell me, Mr. Potts, when you take over by merger one of these country banks, let's say Pottstown, for instance, what is your policy so far as the staff of that bank after it became merged with the Philadelphia National Bank?

A. Pottstown is a good illustration. The same set of circumstances occurred in many of the eight that we have just mentioned.

We would ask the then president of the local bank to remain as a vice-president of the Philadelphia National Bank in charge of that particular local office. The staff of that particular local office was maintained in its entirety.

Should (and this happens, of course, as time goes on) there be a change in the employee group, it is our effort and we follow it in so far as we can to employ additional [fol. 2081] help from the area.

Q. That is a definite policy of the bank that you are following today?

A. That is a definite policy of the bank.

Q. Again referring to Pottstown, and I will ask you about the others also, what was the lending power or authority of the head of the Pottstown Bank prior to the merger; do you know?

A. I can only say this—that it was very small.

In the small country banks, and this is the way they are run, generally speaking, the power, the loaning power, is really vested in the Board of Directors or in a small committee of the Board, on which the president would sit; so that as an individual the president of one of these local

country banks would have a very small, if any, loaning limit granted by the Board of Directors.

Q. Do you know what the lending limit of the Citizens' National was at the time you took it over?

A. There are some figures which I did have. Am I permitted to look at those?

Q. Yes, certainly.

A. Thank you.

The Citizens' Bank in Pottstown had a lending limit of $55,000 at the time of merger.

[fol. 2082] Q. Now, is the man who was president of the Citizens' of Pottstown presently the vice-president in charge of your Pottstown branch?

A. He is.

Q. His name?

A. Fredrick G. Erb.

Q. What is his lending authority at the present time?

A. $100,000.

Q. That is unsecured?

A. Unsecured.

Q. Do any other officers resident in that branch have the authority to lend up to a certain amount?

A. Yes, they do.

Q. You might tell us for the record what the lending authorities of each of the people in charge of each of the branches acquired by merger are.

A. Again, may I ask for certain——

Q. Do you have that?

A. I don't have it with me, but I believe there is such a thing.

This is headed "Lending Authority."

Q. Is this a memorandum prepared by you or a general order prepared and sent around by you?

A. Yes. This went out under my signature back in [fol. 2083] September 1960 and it indicates the lending limits of——

Q. The lending authority or lending limits?

A. Lending authority of all of the officers in the bank, including those in charge of our several branch offices.

In Norristown, the lending limit of the officer in charge, that's Mr. Clifford Gillam, who testified here one day last week, and that figure is $100,000 unsecured.

Q. When you say "lending limit" do you mean lending authority?

A. Excuse me. I am afraid I use both of the terms synonymously.

Lending authority for Mr. Charles W. Yust, who is in charge of one of our Northeast offices, $100,000.

In Upper Darby, which is our smallest office, John G. Keily, a lending authority of $50,000 unsecured.

Q. That is an office you opened; it was not the result of a merger?

A. It was not the result of a merger.

Do you wish me to go further?

Q. Yes, I do.

A. Conshohocken, Donald E. Horsey, lending authority, $100,000 unsecured.

Hatboro, Alan Resendorph, who did not come up through the lending field, $25,000 unsecured; his understudy, George [fol. 2084] W. Lapham, $15,000 unsecured.

In Lansdale, any two to three that I will read, Harold Koch, Harold Weingartner, Carl Reber, have a lending authority of $100,000 unsecured.

Q. In each of the cases where the branch bank is the result of a merger, is the lending authority of the officer or officers in charge greater than it was prior to the merger, when they were officers of the county bank or country bank?

A. To my knowledge, in every instance, the present lending authority is higher than it was prior to the merger.

Q. And in those instances where you opened offices, which were 69th Street and Ardmore, did you have an advisory committee from the neighborhood?

A. In Ardmore, yes; 69th Street, no.

Q. What did you do in each of the instances where there was a merger?

A. In each of the instances where there was a merger, we kept the former Boards in their entirety, asking them if they would form a part of an advisory committee of the Philadelphia National Bank.

Our success in enlisting the support of the former directors of these banks was excellent.

Q. And as time takes its toll by death or otherwise, what do you do towards filling those places?

[fol. 2085] A. We fill those places by going to the leading

citizens, businessmen in the respective area, asking them if they would join our advisory committee.

Q. And in those instances where officers, by reason of super-annuation or death, disappear from the scene, what is your policy toward filling official positions, such as in Lansdale, for instance?

A. In Lansdale, we brought in a man who had had many years of experience in the main office at the Philadelphia National, whose home was actually in Lansdale. We asked him to take over the management of that office.

Q. Why?

A. Because he knew the local situation, was known by the people in the area.

Q. What happened to the former president of the Lansdale Bank?

A. The former president of the Lansdale Bank died of old age. I could say that at the time of the merger he was in his high eighties and their first vice-president, I think, was ninety.

Q. Now directing your attention to something else, on Thursday Mr. Reycraft asked whether you gave any consideration at the time of the discussion of the proposed merger with the Girard Trust Corn Exchange Bank to the advantages to your stockholders if such a merger were [fol. 2086] granted, and he then questioned you about the advantages as to your stockholders.

Were there any other reasons or purposes which you had in mind in the discussion and attempt to bring to fruition a merger with the Girard Trust Corn Exchange Bank?

A. Well, there would be many, Mr. Littleton. We purely mentioned at the time of examination certain items that were listed in the application here having to do with specific dollar savings, one of which was advertising, as I recall, and that was as of the moment.

Looking toward the future, it would seem to me that the shareholders of the bank would, of course, benefit from anything constructive that would happen to the merged institution; what's good for the community, and what might be good in the public interest would certainly be good for one of the leading commercial banks at that time in the area.

Q. Do I understand from this that you had a public-service interest in promulgating this merger?

A. Aside from the benefit which, as I testified, I thought that shareholders would receive over a period of years, I definitely feel that the proposed merger would be in the best interests of the local community, the City of Philadelphia, the area in which we serve; and I am extending this from the [fol. 2087] four-county area to the ten-county area, which is our real—the kernel of our service area.

Q. What are those counties that you are talking about?

A. Those counties are Delaware, Chester, Montgomery, Bucks; crossing the river, Mercer, Burlington, Camden, Gloucester; New Castle, and Delaware.

Q. New Castle, Delaware?

A. And the City and County of Philadelphia.

Q. How does the public benefit through this merger in those areas?

A. The trend, as I have already stated, of industry—that is, new plants, commercial projects, and the trend as far as different population moves are concerned are definitely away from the big city center.

It would certainly seem to me that in the entire area in which a bank of the stature and prestige that the merged bank would have, with the fact that it would attract, we hope, additional business, would keep business here which ought to be here, that what would revert to the benefit of the merged bank would certainly likewise spread out and be constructive for the area as a whole.

Q. Comparatively speaking, how has the banking community moved with the industrial and business growth of the area that you mentioned?

[fol. 2088] A. Over these years, and this is my own feeling, the banks in Philadelphia have taken care of servicing the population changes extremely well. The big city banks have opened de novo branches where regulations would permit in adjoining counties. They have, in every way, tried to not only spread, but to increase their services to take care of this change in population.

Let me give you probably the best illustration that I can. Today in the four-county area there are 41 banks with 300 branch offices. In the ten-county area, which is the one I feel is the kernel of our real service area, there are now, 1,016 banking institutions with 478 branches.

In my opinion, that's pretty good coverage.

Q. In other words, the public requirement, in your opinion, is being met as far as convenience of location and accessibility is concerned?

A. That's right.

Q. In what way have the banks not kept up with business and industry, if at all?

A. Well, I don't think banks have kept up with the expansion of industry, of commerce.

I come to the lending limit which has often been mentioned in this courtroom. Industry, and particularly today, with the concentration which we find in large plants, [fol. 2089] is being established now in the outskirts of a city. That industry needs financial assistance to the greatest extent that they can get it.

Q. Mr. Potts, would you direct your attention, please, to G-57, which is the application for merger, and turn to page 127?

A. Yes.

Q. It is headed "Population, Twelve Largest Metropolitan Areas."

Where does the Philadelphia metropolitan area stand in that?

A. Philadelphia stands No. 4.

Q. And those ahead of it are what?

A. New York, No. 1; Chicago, No. 2; Los Angeles, No. 3.

Q. What comes after Philadelphia?

A. Detroit, No. 5; Baltimore, No. 6; Cleveland——

Q. Boston, isn't it?

I beg your pardon, Baltimore, yes. You are right, Baltimore.

A. Baltimore, No. 6.

Q. That's the city. I am talking about the total metropolitan area.

A. Total metropolitan area, excuse me. Boston would have Rank No. 6; San Francisco, 7; Pittsburgh, 8; St. Louis, [fol. 2090] 9; Cleveland, 10; Washington, 11; and Baltimore, 12.

Q. Now will you turn to page 132 of Exhibit G-57, which is headed "Comparative Rank Of Leading Bank (excluding Holding Companies) In Major Metropolitan Areas, December 31, 1959."

Q. Here the leading bank is, of course, the Bank of Amer-

ica, which we have bracketed with Los Angeles and San Francisco, with the $10,625,000,000 of deposits in that one institution Obviously, it would rank first.

Q. Now, which city ranks next? Which metropolitan area ranks next, so far as having a large bank?

A. New York, which is 3; Chicago, 4; Detroit, 5; Pittsburgh, 6; Boston, 7; Cleveland, 8; and Philadelphia, 9; St. Louis, 10.

Q. Philadelphia, 9; and its national ranking——

A. Is 4.

Q. —is 4 for the metropolitan area, but the national ranking of its largest bank is what?

A. 20.

Q. And that bank is?

A. The First Pennsylvania Company.

Q. And the total deposits of the First Pennsylvania Company as of this date, December 31, 1959, were what?

A. $1,075,000,000.

Q. As compared to Cleveland, what?

A. Cleveland, $1,332,000,000.

[fol. 2091] Q. And Boston?

A. Boston, 1,606,000,000.

Q. And Pittsburgh?

A. $1,753,000,000.

Q. And Detroit?

A. $1,785,000,000.

The Court: Suppose we take a break at this time.

(A recess was had.)

By Mr. Littleton:

Q. Mr. Potts, again may I direct your attention to G-57, this time to page 129, which is headed "Size Of Leading Banks (excluding Holding Companies) In Major Metropolitan Areas, December 31, 1959."

Will you look on page 129 and tell me what the aggregate deposits of the Philadelphia National Bank and Girard Trust Corn Exchange Bank & Trust Company were as of December 31, 1959?

A. Philadelphia National Bank's deposits as of that date were $978,600,000.

Girard Trust deposits as of that date were $668,700,000.

Q. And what were they if combined?

A. Combined, $1,647,000,000.

[fol. 2092] Q. Will you look further up the page and tell me how many banks were larger than what the combined bank would have been in Chicago?

A. In Chicago, there were two banks larger.

Q. And how many banks in Los Angeles would be larger than the combined bank?

A. Two.

Q. And in Detroit?

A. One.

Q. And how does the largest bank in Boston compare?

A. The largest bank in Boston, $1,854,000,000.

Q. Wait now. Deposits, Mr. Potts.

A. In deposits, $1,606,000,000.

Q. Just about the same as the combined bank would be?

A. Exactly.

Q. And in San Francisco how many would be greater than the combined bank?

A. San Francisco, aside from the Bank of America which I have already mentioned, there would be two more; three all together.

Q. Three all together larger?

A. Right.

Q. And in Pittsburgh?

A. In Pittsburgh, there would be one bank with deposits of [fol. 2093] $1,753,000,000.

Q. That is, even though this merger took place, there would still be in those cities a bank or banks larger than the merged bank in deposits?

A. That's correct.

[fol. 2094] Q. You have mentioned and other people have mentioned here at various times the fact that because of the lack of size, prestige, and lending limit, business that would naturally come to Philadelphia banks goes to New York and other cities. What is your authority for saying that?

A. A few years ago—and I believe this was mentioned by Professor Smith in his testimony early in the case—the Federal Reserve of New York came out with a survey setting forth the amount of business coming from other sectors which the New York banks were handling. In the

loan category, with respect to District 3, which is the Federal District, this survey, which was taken on October 5, 1955, showed that $308,000,000 of loans were being made as of that time by New York banks in the Third Federal Reserve District.

Q. And how about Philadelphia itself?

A. In Philadelphia there were $113,000,000 worth of loans made by New York banks, here in the city.

Q. That is within the city proper?

A. Within the city itself, the city proper.

Q. Do you have a copy of that monthly review by the Federal Reserve Bank of New York?

A. I do.

Mr. Littleton: I am going to have it marked as D-1.

[fol. 2095] (Document entitled "Monthly Review of Credit and Business Conditions, Federal Reserve Bank of New York," Volume 39, May, 1957, No. 5, was marked Exhibit D-1 for identification.)

Q. Mr. Potts, will you look at Page 65 of that report and tell us if the information you have just given appears anywhere on that page.

A. The information is under Table II. As far as the Third Federal Reserve District is concerned, the amount of loans, $308,000,000. With respect to loans made by central reserve New York City banks in Philadelphia proper, it shows $113,000,000.

Q. And that is as of what date?

A. October 5, 1955.

Q. In your opinion, has that increased in volume?

A. In my opinion, the loans which the New York banks are making in this area are still very substantial.

Q. Are you aware of any activity of the New York banks in this area, personally?

A. They are in our hair constantly, and I saw some figures recently which indicated that there were 85 full time and/or part time representatives of New York banks who are roaming around our back yard.

[fol. 2096] Mr. Reycraft: I object to these figures unless he puts in the record the source.

Mr. Littleton: I agree that that last answer be stricken.

By Mr. Littleton:

Q. Are you aware of the activities of any other banks of any other city or area soliciting business in Philadelphia?

A. There is no question on that score. Every month we have visitors from the larger cities throughout the country who are here to service what accounts they may have, both deposit accounts and loaning accounts, and who also are certainly seeking new business wherever they can find it.

Q. Is it your thought that this merger will in any way enable your bank to compete with that situation?

A. With respect to the New York banks coming into our area, possibly Pittsburgh banks, I would think that we would be much better able to compete as a larger institution.

Q. Now, Mr. Potts, on another subject, what in your opinion will be the effect on the small or medium size customers of the bank by reason of the merger, which I understood you to say was designed, among other things, to attract larger customers in the national market?

A. The effect and small and medium size concerns would certainly not be detrimental. I would think that the reverse [fol. 2097] would be more true, in that, in my experience, I have found that our larger depositors usually keep balances well in excess of the amounts that they might borrow. If one should take an average figure of this, it is quite substantial, and it would certainly be our intention to maintain our present policy, which is to make available to small and medium sized businesses these excess funds that are on deposit with us. We would not only continue to do it, but with a larger bank the chances are we would have better opportunities for so doing.

With respect, too, of small and medium sized businesses—and I have mentioned earlier this whole question of greater specialization—the two categories of businesses mentioned would be able to utilize this type of specialization. We might have our industry setup, which would be very constructive and helpful, let us say, to the industry of non-ferrous metals, to some other industry, to retail trade, to department stores, all the way along the line, so that my answer to you, Mr. Littleton, is that I feel that this merger would be beneficial for the reasons I have mentioned, and

am sure there are others, to the small and medium sized businesses.

Q. Do you believe that this merger would enable the resultant bank to control interest rates for commercial [fol. 2098] loans in this area?

The Court: Let me ask you, what do you mean by control? Set them, keep them down, lift them up, or what?

Mr. Littleton: Either one, either bring them down or bring them up.

A. Fundamentally, interest rates are decided upon by the laws of supply and demand. In other words, if there is in a booming economy a greater demand, then the interest rates are, of course, apt to go up because of it. No bank or no consortium of banks could control that. Another factor is, of course, the policy, and this goes into fundamental monetary and fiscal policy of the Federal Reserve of our Government. The Federal Reserve, with their rediscount rate, can affect very materially the entire interest rate pattern. The so-called Open Market Committee of the Federal Reserve Board can, through their purchases or sales of either short-term, intermediate-term, or long-term governments, likewise control certain fundamental trends in the interest rate pattern. Should a bank such as the Philadelphia National or the merged institution endeavor to set rates, if those rates were lower than their competitors', not only in the area but also in New York, Pittsburgh, other sections, that bank could not maintain a [fol. 2099] lower rate for long, because today in the financial picture, in the over-all one with respect to loanable funds, the situation is pretty tight.

Q. You mean you will soon be loaned out?

A. Soon be loaned out. The reverse would mean that a business which was in either one of the charter institutions, the merged bank, and with respect to the resultant bank, would lose business to their competitors. So that, to sum up, interest rates are controlled by many factors, the chief of which is the market place, the second is the Federal authorities, and the third is that the banking system is so broad that there isn't any bank or any consortium of banks that could do it as of today.

Q. What in your opinion will be the effect upon the public in Philadelphia and in Delaware Valley by reason of

the elimination of competition between the Philadelphia National Bank and the Girard Trust Corn Exchange Bank due to this merger?

A. With respect to the effect on the public in the Delaware Valley, I would think that there would be very little effect. I mentioned earlier that corporations—and now I will bring in individuals—really don't like to change their banking connections any more than they have to, so that traditionally there is that factor of inertia which would [fol. 2100] certainly come into it. It would seem to me that, as I have mentioned earlier, should the merger be consummated, there would be no lessening of competition, that there are sufficient other banks in the area to carry on in the same manner that we are working in today. Those are on the plus side of the equasion.

On the negative side, from the standpoint of the merged bank, it is quite conceivable that some people who fundamentally are opposed to bigness will, out of oneriness, move their account from the largest institution to one where they in their own minds think that maybe they will get a little personalized service.

I would feel that there are many other factors in this picture in addition to what I have already said, that there will be certain situations where an individual or a corporation might now have an individual account with the Philadelphia National and the Girard, and should the merger be consummated, that particular corporation or depositor might readily say to himself or herself, "I think it would be better if we had two banks rather than dealing solely in one."

Q. Some of the other banks would be alerted to that too?

A. Some of those other banks are already alerted to it.

Q. For instance, on rate of increase on savings deposits, [fol. 2101] would there be any difference in the rate of interest on savings deposits?

A. There would be no difference on rate of savings. As I see it today, the competitive factor there is, of course, No. 1, regulation, which is pretty closely watched over. Commercial banks are permitted only to go up to three per cent as of today. Most commercial banks in this area do pay 3 per cent. The competition in savings is from the mutual savings banks. As far as savings monies are con-

cerned, the Federal Savings and Loans, with their certificates, would of course be a substantial factor.

Q. Because they pay a higher rate?

A. Because they pay a higher rate. The mutual savings banks pay a rate of 3½. The Federal Savings and Loans pay a rate anywhere from 3½ to 4, and one sees advertisements in the press daily of 4½ to 4-¾ out on the West Coast.

Q. This is on what you pay. Now, how about on what you charge? Is there any difference between your practice of credit evaluation at the present time?

A. With respect to credit evaluation, in those instances that I can report on from practical experience, it seems to me that credit offices, as a rule, approach a problem in more or less the same way. Now, granted that there will be factors that will weigh one person's decision this was as [fol. 2102] against other factors in another case, I can't see where, as far as the merged bank is concerned, with respect to credit analysis, there would be any material change.

Q. There has been some suggestion implied, at least, in questions that this merger might adversely affect the small or medium sized businessman. What is your answer to that?

A. My answer to that is that the effect would be nil.

Q. Will it have a good effect or bad effect?

A. It would have a good effect in the sense that the merged institution, in my estimation, will attract greater business into the area. A bank of the stature that is being contemplated would certainly have the loanable funds required; and let me say this for the record, too, that I have found that in a larger institution per se, as well as in a small institution, the depositor, the customer, the borrower, be he large or small or medium sized, gets the same relative treatment.

Q. It has also been suggested or implied in questions that you can raise your lending limit by selling more stock or by retaining earnings. Addressing yourself to the latter first, how long, in your opinion, would it take to add to the lending limit of the Philadelphia National Bank an amount sufficient to bring it up to the lending limit of this merged bank if the merger is approved? How long would [fol. 2103] it take to acquire that additional lending limit by the method of retaining earnings?

A. By the method of retained earnings—and I mentioned

earlier that we have on an average been adding about 2½ million dollars into undivided profits over the recent past—in order to achieve a $15 million loaning limit, we would have to increase our undivided profits by $70 million, and it would take us in excess of 20 years to do it.

Q. Now, in order to sell stock of like amount to increase your lending limit to $15 million, what would it be necessary to do?

A. It would be necessary to be able to sustain the additional shares outstanding in the way of dividends and earnings should a bank which, as I answered Mr. Reycraft earlier, which today with its deposit structure does have adequate capital, go out to sell additional stock to obtain new capital, all that would happen would be that the outstanding shares would be watered to that extent.

Q. Would be watered. Would you recommend this method to your shareholders?

A. Well, as far as management, the answer is no, and I doubt if any of our members of the Board of Directors would go for any such sort of project.

Q. While we are talking about stock, Mr. Potts, Mr. [fol. 2104] Reycraft called your attention to the movement of price of the stocks of the Philadelphia National Bank and of Girard Trust Corn Exchange Bank before the merger was announced, the time after the merger was announced, and presently. Have you looked into this matter since Thursday?

A. Indeed, I did, because I wanted to be sure what I said the other day.

Q. Will you tell us what you found.

A. I asked one of our stock traders in the bank if he would look into this, and if I may, I have two sheets here with certain percentage figures on them.

Mr. Reycraft: May I look at that?

Mr. Littleton: You certainly may.

(Paper is handed to Mr. Reycraft.)

The Court: You have seen them, Mr. Reycraft?

Mr. Reycraft: Yes.

The Court: Go ahead.

The Witness: In Philadelphia on November 8, the merger having——

By Mr. Littleton:

Q. November 8, 1960?

A. November 8, 1960. The Philadelphia National Bank stock was selling 42⅝-43, bid and ask.

Girard, 55 to 55¾.

[fol. 2105] First Pennsylvania Company, 49⅜-⅞.

Provident Tradesmens, 55 to 55¾.

Fidelity, 49 to 50.

Q. Fidelity-Philadelphia Trust Company?

A. Fidelity-Philadelphia Trust Company.

Central Penn National Bank, 42¾ to 43¾.

On November 15, which is the date that the merger was publicized, Philadelphia National Bank, 44-45.

Girard, 56½-58.

First Pennsylvania Company, 50¼-51.

Provident Tradesmens, 55½-6¼.

Fidelity, 50¾-51¾.

Central Penn National Bank, 44¾-45¾.

The week after, on November 22, Philadelphia National, 44⅞-45⅜.

Girard, 57-8.

First Pennsylvania Company, 52-52¾.

Provident Tradesmens, 56½-7½.

Fidelity-Philadelphia, 52½-54.

Central Penn, 46½-47½.

On June 16, 1961, Philadelphia National Bank stock, 51¾-2½.

Girard, 62¾-3½.

First Pennsylvania Company, 57½-8¼.

[fol. 2106] Provident Tradesmens, 64¼-65.

Fidelity-Philadelphia, 62-63.

Central Penn National Bank, 50¼-51.

Increases percentagewise, November 8 to November 22.

Philadelphia National Bank increased 5.2 per cent.

Girard increased 3.6 per cent.

First Pennsylvania Company increased 5.3 per cent.

Provident Tradesmens increased 2.7 per cent.

Fidelity-Philadelphia increased 7.1 per cent.

Central Penn National Bank increased 8.8 per cent.

From November 22 to June 16——

Q. 1960?

A. November 22, 1960, to June 16, 1961.

Philadelphia National Bank increased 15.3.
Girard, 10.1.
First Pennsylvania Company, 10.6.
Provident Tradesmens, 13.7.
Fidelity-Philadelphia, 18.1.
Central Penn National Bank, 8.1 per cent.

[fol. 2107] Now, if I may just give you a few relatively similar reports of banks outside of Philadelphia:

Mellon National Bank, Pittsburgh. I think the percentage increases would be sufficient, and these are from November 15, 1960, to June 15 of 1961.

Mellon National Bank increased 17.8 per cent.
Chase National Bank, New York City, increased 38.9 per cent.
Chemical Bank of New York increased 35.9 per cent.
First National City, New York, 21.7 per cent.
The National City Bank of Cleveland, 47.4 per cent.
National Bank of Detroit, 32.05 per cent.
First National Bank of Boston, 21.06 per cent.
First National Bank of Chicago, 31.3 per cent.
The Bankers Trust Company, New York City, 26.4 per cent.

Those are all the figures I have.

Q. If you know, is this a period of general rise in the [fol. 2108] stock market?

A. This is in a general period of general rise in the stock market and very strong strength in bank shares.

Q. There is a memorandum you had, and Mr. Reycraft asked me if I would have it marked, and I am perfectly happy to mark it in my side of the case.

A. Surely.

Mr. Littleton: I have no copies, if Your Honor please, but I will have copies made.

The Court: Very well.

Mr. Littleton: Will you mark this D-2 and this D-2-A.

(Memoranda of stock prices of various banks were marked Exhibits D-2 and D-2-A for identification.)

Mr. Littleton: That is all, Mr. Potts. Thank you very much.

Redirect examination.

By Mr. Reycraft:

Q. Mr. Potts, Mr. Littleton asked you some questions about the May, 1959, issue of the Monthly Review of the Federal Reserve Bank of New York.

A. Yes.

Q. Now, the figure that you read for loans made to borrowers in other Federal Reserve Districts, for the Phila-
[fol. 2109] delphia Federal Reserve District was $308 million, was it not?

A. Correct.

Q. Can you tell me what states are included in this district?

A. It is parts of Pennsylvania, New Jersey, and Delaware. We do not go as far West as Pittsburgh. We do take in Trenton, Camden, Wilmington.

Q. It goes substantially beyond the four-county area in which your bank has offices; is that not correct?

It goes beyond the four-county area and also would go beyond the so-called ten-county area, but not to any great extent.

Q. The City of Wilmington is beyond your so-called ten-county area, isn't it?

A. No. That is New Castle, Delaware, that comes in there.

Q. The other figure at the bottom of Page 65 of this exhibit indicates that $113 million was in the City of Philadelphia itself; is that correct?

A. Right.

Q. And the figure of $113 million is, by comparison to Government's Exhibit No. 6, approximately 4.6 per cent. The total commercial loans in Philadelphia according to
[fol. 2110] that exhibit, is 2,451,137,000. I am just trying to find out if these figures are correct.

A. I think they are, as I recall.

Mr. Littleton: May I ask the date, Mr. Reycraft.

By Mr. Reycraft:

Q. I should say to you, Mr. Potts, that G-6 is as of June 15, 1960, and the figures for Philadelphia in the May, 1957, Federal Reserve Bulletin, they are outstanding as of October 5, 1955, so there is a disparity between those dates.

A. Yes, there is a disparity in the dates. Is there an extra copy of that exhibit? Because commercial loans covers a multitude of sins, you know.

(Exhibit D-1 handed to the witness.)

The Witness: Mr. Reycraft, I would suspect that the Federal Reserve Survey dated May, 1957, which we have been talking about, could readily be confined to commercial and industrial loans, but I feel we should check that to find out.

Industrial and commercial loans would be under one category. What I am referring to is that in the total of $2,451,000,000 which is on this exhibit of the Government's, included in that are real estate loans, loans to financial [fol. 2111] institutions, loans for purchasing or carrying securities, loans to farmers, loans to individuals for household, family, and other personal expenditures, all other loans, including overdrafts, so that I feel that we must have a verification as to the comparability of these two figures.

Q. All right, I agree with you.

Mr. Potts, referring to Page 97 of the application, G-57, the third paragraph, the paragraph F which Mr. Littleton asked you to read, says, "It can be said in general about the types of institutions described in the above paragraphs that, in contrast to those covered by Exhibit B . . ."

Now, can you tell me whether it is your understanding, as I understood you first to testify, that the institutions being contrasted with Exhibit B are those in Exhibit C or whether you intend to limit it to direct lending agencies of the Government.

A. I intended to limit it to what is under Section F, direct lending agencies of Government. I misread that.

Q. The application indicates, does it not, with reference to credit unions, on Page 95, that the severity of this competition is not great?

The Court: Credit unions?

[fol. 2112] Mr. Reycraft: Yes.

The Court: He agreed to that.

A. Yes. It says, "Probably the severity of this competition is not great. Nevertheless, they are a potential source of competition."

Q. They are potential competition. All right.

Now, with reference to Page 97, under the heading "Factors," the application indicates, does it not, that because of the nature of the risks, their business does not compete significantly with the credit business of commercial banks?

A. That is right.

Q. And you agree to that?

A. Yes, I agree.

Q. Now, you answered, I believe, in response to one of Mr. Littleton's questions, that issuing new stock would result in a watering of the stock. Now, this is a powerful phrase. I am not sure you intended to convey all that may convey to some people.

The Court: The word is "dilution."

The Witness: "Dilution" is a better word, and what I mean is dilution of the stock.

Thank you, Your Honor.

By Mr. Reycraft:

[fol. 2113] Q. I believe you will recall that in 1951 the Girard increased its capital by selling about 10 per cent of its total outstanding stock, amounting to 10 per cent of the then existing stock.

A. Did I say that?

Q. No. Do you have any recollection of this fact?

A. I don't recall, Mr. Reycraft.

Q. Well, I believe the application indicates it, and I can't put my finger on it for the moment, but you wouldn't suggest that this was a watering of their stock, would you?

A. No, because factors would be different under those circumstances. They probably had the deposit structure which they could support for additional capital.

Q. Is it a fair summary of your answer that if you sell new stock and raise new capital you must have the business to go with it?

A. That is correct.

Q. Selling the new issue would raise your lending limit, would it not?

A. Selling of stock would raise the lending limit.

Q. And wouldn't that attract the additional business to support the additional capital?

A. I think you are putting the cart before the horse.

Q. So that you think you should have the business before [fols. 2114-2116] you increase your lending limit?

A. That is right.

Mr. Littleton: I assume you meant by that method of increasing the stock.

The Witness: By that method. That is what I assumed from the question.

Mr. Reycraft: That is all.

Mr. Littleton: That is all, Mr. Potts.

The Court: That is all for today.

(Adjourned at 4:10 P.M. until Tuesday, June 20, 1961, at 10:00 o'clock A.M.)

[fols. 2117-2118] [Title endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

ELEVENTH DAY

Philadelphia, Pa., June 20, 1961

Before Hon. Thomas J. Clary, J.

* * * * * * *

[fol. 2119] E. GORDON KEITH, having been duly sworn, was examined and testified as follows:

(Exhibit G-16-A was handed to the Court.)

Direct examination.

By Mr. Reycraft:

Q. Dr. Keith, what is your present employment?

A. I am employed at the University of Pennsylvania, where I am vice dean, or associate dean, of the Wharton School of Finance and Commerce and Professor of Finance.

Q. What subjects do you teach under the heading of Finance?

A. Well, I teach Money and Banking, Public Finance, Fiscal Policy, Monetary Policy, and similar courses.

Q. How long have you been a professor of finance?

A. I have been professor since 1952 at the Wharton School.

Q. Where did you teach before that?

A. Well, I came to the University of Pennsylvania in 1949—1939, as a matter of fact—as an instructor in finance, and then was at the Treasury Department during the war, and then came back to the University of Pennsylvania in 1947 and have been there since.

Q. What were your duties with the Treasury Department?

A. I was with the Division of Tax Research in the [fol. 2120] Treasury.

Q. Do you have a graduate degree, sir?

A. Yes, I have a Ph.D. from Harvard University.

Q. In what subject?

A. In Economics.

Q. Dr. Keith, have you conducted or supervised a study of branch banking in the Philadelphia area?

A. Yes, I have.

Q. When did you do this, sir?

A. I did this in 1956 and 1957.

Q. Can you describe the circumstances under which this study was initiated?

A. Yes, I believe I can. I believe it was in June of 1956 that Robert L. Myers, the Secretary of Banking for the Commonwealth of Pennsylvania, requested the banks of Philadelphia, Delaware, Montgomery, and Bucks Counties to observe a voluntary moratorium with respect to branch operations across county lines.

The banks agreed to this, and the study was to be made by the joint State Government Commission of the Legislature of the branch banking situation in this State. At the same time, as I understand it, the banks in these four counties decided that they would like to conduct an independent study of the branch banking problem in the four [fol. 2121] counties, so I was approached by a committee representing the banks of the four counties to conduct or direct such a study.

Q. Can you tell me the names of the persons who were on the committee which approached you?

A. Yes. The chairman of the committee was Mr. Geoffrey Smith, then president of the Girard Corn Exchange Bank; Mr. William L. Day, of the First Pennsylvania Bank; Mr. DeHaven Devlin, of the Bryn Mawr Bank; Mr. Donald Helffrich, who was I think executive vice president of the Upper Darby National Bank, and Mr. Stuart Rauch, of the Philadelphia Savings Fund Society.

Q. And who assisted you in the study, Dr. Keith?

A. Well, I was assisted in the study by a number of other economists: Professor Nat Jackendoff, of Temple

University; Professor E. S. Herman, who was then at Pennsylvania State University but is now at the University of Pennsylvania; Professor John P. Lutz, of the University of Pennsylvania; and Professor Karl Scholz of the University of Pennsylvania.

Q. Was the study conducted under your direction?

A. The study was conducted under my direction, yes.

Q. Did it include a study of mergers in the four-county area?

[fol. 2122] A. It included a study of mergers in the four-county area, yes.

Q. Can you tell me who received copies of the study after it was completed?

A. Copies of the study went to each individual bank who had contributed to the support of the study.

Q. Was the study made public?

A. The study as a whole I think was not made public. It was released to the press when it was completed, but it was never published in the sense——

Q. Was the study itself released publicly?

A. It was released to the press. There was a session in which the press were given copies of the entire study.

Q. Now, what geographic area was encompassed within your study?

A. The four counties of Philadelphia, Bucks, Montgomery, and Delaware.

Q. Can you explain the reason for that selection?

A. Well, the reason for this was that under the Pennsylvania State Banking Code since 1937, I believe, banks are permitted to establish branches only in contiguous counties, so that the problem of the Philadelphia or city banks going out in the counties and establishing branches there arose [fol. 2123] only with respect to these four counties, these other three counties which were contiguous to Philadelphia County.

Q. So that this was the most relevant area for the purpose of your study?

A. Yes, this was the relevant area.

Q. Dr. Keith, will you refer to the study which you have before you, which is marked in evidence as Government's Exhibit No. 16-A, and turn to Page I-7.

A. Yes.

Mr. Littleton: If Your Honor please, may I at this time ask for an offer of proof.

Mr. Reycraft: Yes. This is a study which, as Dr. Keith has described, treats the competitive problems resulting from branch banking of Philadelphia banks within the four-county area. It treats the effects of these branch activities on mergers in the area. It discusses specifically the effects of mergers in the four-county area on composition and commercial banking, changes in banking structure in the four county area brought about by branch banking and mergers and consolidations.

Mr. Littleton: May I ask the witness a couple of questions?

Mr. Reycraft: Certainly.

By Mr. Littleton:

[fol. 2124] Q. Dr. Keith, you say that your study included a study of mergers. When you say that, you mean a study of mergers, cross-county mergers, whereby county banks or country banks were merged with city banks; it that correct?

A. This was our primary interest.

Q. You didn't make any study of mergers with banks within the City of Philadelphia, did you?

A. Well, we included statistics in the study.

Q. You included statistics in the study, but you didn't make any study of mergers within the City of Philadelphia, did you?

A. Well, it depends on what you mean by "study." Our primary focus was on the cross-county movement, obviously. However, in studying the operation of the banks here, we did, of course come into contact with the problem of intra-county mergers.

Q. There had been a merger, had there not, in 1951 of two large Philadelphia banks?

A. That is right.

Q. Did you make any study of that?

A. We did not.

Q. There had been a merger of two large Philadelphia banks in 1955, had there not?

[fol. 2125] A. Which one was that?

Q. Girard and Corn. Did you make any study of that?

A. No.

Q. That was 1951. The other one was 1955. My dates were reversed. It was 1951 for Girard-Corn and 1955 for First Pennsylvania.

A. That is right.

Q. You made no study of those at all?

A. We did not study that.

Q. So you can't say that you made any study of mergers similar to the one which is under discussion in this court room?

A. I think that is fair to say, yes.

Mr. Littleton: I object to this line of examination as demonstrated by the offer of proof.

By Mr. Reycraft:

Q. In you study, Dr. Keith, isn't it a fact that you considered the structure of commercial banks throughout the four-county area?

A. I think we did.

Q. And while you did not, as I understand your testimony, specifically analyze the particular mergers which Mr. Littleton referred to, you did study and reach conclusions as to the effects on the banking structure in the four-[fol. 2126] county area generally and on branch banking and mergers; isn't that the fact?

A. Well, we couldn't altogether——

Mr. Littleton: I am going to object to the question as leading the witness.

The Court: He was about to disagree with him, Mr. Littleton, so let's hear the disagreement.

Read the question.

(The reporter read as follows:)

"Q. And while you did not, as I understand your testimony, specifically analyze the particular mergers which Mr. Littleton referred to, you did study and reach conclusions as to the effects on the banking structure in the four-county area generally and on branch banking and mergers; isn't that the fact?"

A. I think we reached some general conclusions concerning the nature of banking operations in the four-county area.

Q. Including the banking structure in the four-county area?

A. Including the banking structure in the four-county area.

Q. And competition in banking in the four-county area? [fol. 2127] A. Competition in banking in the four-county area, that is right.

The Court: I am going to permit the line of questioning. I will overrule the objection.

By Mr. Reycraft:

Q. Dr. Keith, let me direct your attention to XV of your study.

A. Yes.

Q. And will you refer to Table 1-A on that page.

A. Yes.

Q. Will you state the source from which the data contained in this table was obtained.

A. The source is a Government publication "Monetary Policy and the Management of the Public Debt," a joint economic committee, economic report, 62nd Congress, second session, Pages 553 to 555.

Q. And will you refer to I-7 of your study.

Mr. Littleton: If Your Honor please, may I inquire at this point of Mr. Reycraft whether or not it is his intention to put in this entire report.

Mr. Reycraft: Yes, sir.

Mr. Littleton: The entire report?

Mr. Price: May I ask whether it is proposed to put it in as an exhibit or the witness is going to be asked to [fol. 2128] give certain portions of it so that we get the benefit of his judgment or simply put the book in evidence?

Mr. Reycraft: I am going to put the exhibit in, and I am also going to ask the witness questions about it so that we will have the benefit of his testimony.

Mr. Price: I will announce now, then, that I shall certainly object to the receipt of this book in evidence. The witness may testify, of course, if he chooses, and I will

examine him, but I shall object to the admission of the book as such.

Mr. Reycraft: It is not a book. It is a study which was prepared on behalf of your bank, among others.

Mr. Price: Not for the purposes of this case or having anything to do with this case.

The Court: I will rule on it at the proper time. I point up, however, that we are here to take sworn testimony.

Mr. Reycraft: Yes, sir. My purpose is in establishing the authenticity of the tables.

The Court: All right.

[fol 2129] By Mr. Reycraft:

Q. Will you refer to I-7 of your study and tell me the source from which the data contained in this table was obtained?

A. Well, there are two sources indicated here—1945 to 1950 from the "Monetary Policy and the Management of the Public Debt," Volume 1, 554-556; and data 1951 through 1955 are compiled from annual reports of the Board of Governors of the Federal Reserve System for those years inclusive and the Federal Reserve Bulletin for August, 1956.

Q. Will you refer to I-9 and tell me the sources of the data contained in this table?

A. The source of this data was the annual reports of the Federal Deposit Insurance Corporation for 1945, '47, '50, '53, and '55.

Q. Will you refer to Table I-H on page I-22?

A. The source of this was the 1949 Survey of Consumer Finances put out in the Federal Reserve Bulletin Survey 1956.

Q. Will you refer to II-3, Table II-A?

Mr. Price: May I have that reference again, Mr. Reycraft?

Mr. Reycraft: Yes, sir, II-3, Table II-A.

The Witness: This is the summary of changes in the commercial-banking structure of Philadelphia. These [fol. 2130] were tables which we prepared from information supplied us by the Federal Reserve Bank of Philadelphia.

By Mr. Reycraft:

Q. This was prepared under your direction?

A. This was prepared under my direction, yes.

Q. Now, Prof. Keith, it has been called to my attention that with reference to I-5 you said the Sixty-Second Congress, and I believe you meant the Eighty-Second Congress.

A. Yes, I did, the Eighty-Second Congress.

Q. Will you refer to page II-13, Table II-B, and tell me the source from which this data was obtained?

A. This was put together by us on the basis of information derived, as far as banking statistics are concerned, from the Federal Reserve Bank of Philadelphia.

Q. Will you refer to page II-18, Table II-C?

A. II-18?

Q. Yes, II-18.

A. This was put together in the same way.

Q. Under your direction?

A. Under my direction.

Q. Will you refer to page II-24, Table II-D?

A. The same answer.

Q. Will you refer to page II-31, Table II-E?

A. The same answer to that.

[fol. 2131] Q. Will you refer to page IV-30, Table IV-D?

A. This is the table showing premiums paid?

Q. Pardon me? I didn't hear your answer.

A. This is Table IV-D?

Q. Yes, on page IV-30.

A. Well, this was a table which we put together on the basis of information we got concerning prices paid for—premiums paid in connection with the mergers which had taken place in the Philadelphia area.

Q. Did you get this information——

Mr. Littleton: Objected to.

Mr. Reycraft: Pardon me?

Mr. Littleton: Objected to.

By Mr. Reycraft:

Q. Did you get the information from the banks involved?

A. I think we got the information from the banking services.

Mr. Littleton: Objected to as immaterial; not only as hearsay, but as irrelevant.

By Mr. Reycraft:

Q. Will you refer to——

The Court: I will overrule the objection. The question about the table itself and so forth was a matter where he was asked only where he got his information. That is as far as this question goes.

[fol. 2132] I will overrule the objection.

By Mr. Reycraft:

Q. Will you refer to Table IV-D on page IV-31 and state the source of this information?

A. To the best of my recollection, this was a table compiled in a similar way, from published information concerning the terms of mergers.

Q. Will you refer to page V-5, Table V-A?

A. The sources given here are the "Monetary Policy and the Management of the Public Debt," to which reference was made earlier, and the annual reports of the Governors of the Federal Reserve System.

Mr. Littleton: Objected to because it doesn't show what the area is that is covered by the table.

By Mr. Reycraft:

Q. What is the area covered by this table, Dr. Keith?

A. This would be a national table.

Q. The entire United States?

A. The area of the entire United States.

Q. Will you refer to page V-15, Table V-B?

A. Yes.

Q. Will you state the source from which this information was obtained?

A. This was material supplied to me directly by the [fol. 2133] Comptroller of the Currency as a result of a request which I made to him.

Q. Will you refer to Table V-C on the same page?

A. The same source.

Q. And V-D on the next page?

A. That was the same source.

Q. And V-E?

A. The same source.

Q. Will you now turn to page V-22 and state the source from which this information was obtained?

A. This information was supplied directly to me by the Department of Banking of the Commonwealth of Pennsylvania.

Mr. Price: What was the page reference?

Mr. Reycraft: V-22.

By Mr. Reycraft:

Q. Will you refer to the appendix, Appendix A, and Table A-I?

A. A-I——

Mr. Price: May I interrupt a moment, sir?

There are two pages that I find in the report designated V-22 and I will ask Mr. Reycraft to identify which page it is that he is referring to for the record.

Mr. Reycraft: With reference to V-22, as Mr. Price points out, there are two such pages. One page contains a table headed "V-F," titled "Data on Applications for [fol. 2134] Permission to Organize De Novo Branch Banks and to Establish De Novo Branches Submitted to the Department of Banking of the Commonwealth of Pennsylvania 1945 through 1956."

Mr. Price: Is that the page to which you refer?

Mr. Reycraft: That is the page to which I referred and as to which I directed my question.

By Mr. Reycraft:

Q. Dr. Keith, would you refer to Table A-I in the appendix?

Mr. Littleton: Now, where is the appendix?

Mr. Reycraft: It must be at the end.

The Witness: A-I was based on the data provided by——

Mr. Littleton: Will you wait a minute, Doctor, until we find out where it is?

The Witness: It follows VI-34.

By Mr. Littleton:

Q. Is this the so-called "Appendix A"?

A. This is Appendix A.

Q. May I say, Doctor, that in the copy of this that you furnished us the appendix follows II. We will take it out.

A. It may have been put up differently in different volumes.

Q. Now, should it follow the summary, do I understand?

A. This is where I have it in my volume.

[fol. 2135] Q. At the very end?

A. At the very end, yes.

Q. May I ask, are there any other appendices besides "A" which should follow?

A. Well, there are several other appendices, yes.

The Court: In the one that has been marked, the Appendix A follows VI-34 and after that comes a summary of principal arguments for and against branch banking, with a table of contents running apparently 27 pages.

Mr. Littleton: Thank you, Your Honor.

The Court: That is the way it is set up in the one marked for identification as G-16-A.

The Witness: May I say something, Mr. Reycraft?

Mr. Reycraft: Yes, sir.

The Witness: I think the summary of the principal arguments was not in the final report as submitted. This was an earlier memorandum which was prepared by us in the course of the study but, of course, each bank was given copies of the final report and could include as much of the earlier material as they wanted to within the bound volume, and I gather the practices varied with respect to what has been put into the volume here.

By Mr. Reycraft:

Q. But it was a part of your study?

[fol. 2136] A. It was a memorandum which was prepared for internal purposes, yes.

Q. As part of your study?

A. That's right.

Q. Will you state, sir, the source of the information contained in Table A-I?

A. A-I was based on data provided by the Research Division of the Federal Reserve Bank of Philadelphia.

Q. And with reference to Table A-II, the source?

A. This also was based on data provided by the Research Division of the Federal Reserve Bank of Philadelphia.

Q. And the source of the information contained in Table A-III?

A. That was the table put together by us based on data in Tables A-I and A-II.

Q. Will you refer to Table A-VI?

A. Yes.

Q. And state the source of the information contained in that table?

A. This was compiled from the data shown in Appendix B, Part I, in which we listed the changes in the banking structure during the periods of the study.

Q. And the information contained in Table VII?

Mr. Littleton: A-VII, or just VII?

Mr. Reycraft: I believe it should be A-VII.

[fol. 2137] The Witness: Yes. That printing is bad there. I think it should be A-VII.

Mr. Reycraft: This table is entitled "Changes in the Competitive Structure of Banking in Bucks, Delaware, and Montgomery Counties, January 1, 1947 to June 30, 1956, Number of De Novo Branches Established."

By Mr. Reycraft:

Q. Did you give the source of that information?

A. The source of that is Appendix B, the part where we have listed the de-novo branches opened in the different years.

Q. And the source of that information?

A. The source of that information was from the Federal Reserve Bank of Philadelphia.

Q. Now with reference to Table A-VIII, will you state the source of your information?

A. This was derived from the Department of Research and Statistics of the Federal Reserve Bank of Philadelphia.

Q. And with reference to Table A-IX, will you state the source of the information?

A. Well, this table we had to put together ourselves.

We got the basic data from the Federal Reserve Bank of Philadelphia concerning deposits, but then in the case of branch banks, where the total deposits would be reported as of the Philadelphia home office, we had to get the figures [fol. 2138] from the local bank to indicate the deposits in each of the separate counties.

Q. So the source is either the Federal Reserve Bank or the local banks themselves?

A. Or the local banks providing us with a breakdown of their deposits in the various branches.

Q. Will you refer to Table A-X and state the source of that information?

A. Well, this was a table which I think we put together ourselves from the figures supplied to us concerning deposits—or this would be total assets provided to us by the Federal Reserve Bank of Philadelphia, and then we set the table up; having all of the banks, we took the four largest the two largest, and the largest to arrive at these figures.

Q. You made the computations based on information supplied by the Federal Reserve Bank?

A. That is correct.

Q. Will you refer to Table A-XII——

Mr. Littleton: You are not going to give us XI?

Mr. Reycraft: I hadn't planned to.

Mr. Littleton: All right.

The Witness: You want A-——

[fol. 2139] By Mr. Reycraft:

Q. A-XII.

A. A-XII, this is the number of competitive banking offices?

Q. Yes.

A. Classified by type. This is based on Appendix C of the report, which shows the number of banks and branches in each of the communities in the four-county area, I believe.

Q. Will you refer to Table A-XIII?

A. Yes.

Q. And state the source of that information?

A. Well, this is a table which I think we put together on

the basis of our tabulation of the banks and their respective sizes in the different years.

Q. Are they based on information received from the Federal Reserve Bank?

A. Yes. This would have been put together from information received from the Federal Reserve Bank of Philadelphia.

Q. Will you refer to Appendix B, Dr. Keith, which is entitled "A Directory of Changes in the Banking Structure in Bucks, Delaware, and Montgomery Counties, January 1, 1948 to June 30, 1957, inclusive," Part I, "Combinations Resulting in Elimination of Independent Banking Units"; and Part II, "Establishment of De Novo Branches of Commercial Banks," and will you state the source of that information?

[fol. 2140] A. We put this together from information provided us by the Federal Reserve Bank of Philadelphia.

Q. Will you refer to Appendix B, entitled "A Directory of Changes in the Banking Structure in Philadelphia County, January 1, 1947 to June 30, 1957, Inclusive," Part I, "Combinations Resulting in Elimination of Banking Units," Part II, "Establishment of De Novo Branches of Commercial Banks and Mutual Savings Banks"?

A. This was put together by us on the basis of information provided us by the Federal Reserve Bank of Philadelphia.

Q. Will you turn to Appendix F, Table F-I, and state the source of that information?

Mr. Littleton: Excuse me. I don't think we have that.

The Witness: I beg your pardon?

Mr. Reycraft: You have that.

Mr. Littleton: Appendix F?

Mr. Reycraft: Yes.

Mr. Littleton: Is that Appendix B also?

The Witness: This is a table of index numbers showing the change in deposit size for individual banks located in Montgomery County.

By Mr. Littleton:

Q. Did you supply this to all the banks?

[fol. 2141] A. It should have been. There's one of these

tables for each of the three outside counties—Montgomery, Bucks, and Delaware.

Mr. Littleton: All right. We have it, again in a different part of the report.

By Mr. Reycraft:

Q. Will you refer to Table F-II and state the source of the information contained in that table?

A. This was done in the same way, based on the capital figures supplied us by the Federal Reserve Bank of Philadelphia.

Q. Will you refer to Table F-III and state the source of the information contained in that table?

A. This was from the same source, and using their deposit figures we computed the index numbers.

Q. Dr. Keith, did you also prepare a summary of your findings and conclusions?

A. We did.

Q. Do you have a copy of that with you?

A. I do.

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 127 a document consisting of 15 pages, entitled "Summary of Findings and Conclusions: Survey of Branch Banking in the Philadelphia Area, 1946 to 1957."

[fol. 2142] Mr. Littleton: May I repeat my objection for the same reason, if Your Honor please.

The Court: It is not offered in evidence; it is marked for identification.

I will overrule the objection.

(Printed and bound document entitled "Summary of Findings and Conclusions Survey of Branch Banking in the Philadelphia Area, 1946 to 1957," was marked Exhibit G-127 for identification.)

The Court: You understand we are not trying to undo anything that has been done in the past, are we, Mr. Reycraft?

Mr. Reycraft: We are showing the tendency to monopoly, Your Honor, the increase in the concentration of the banking structure in the Philadelphia area.

The Court: This is peripheral, though, because the witness has said that he has not studied the two big mergers in 1951 and 1955 in Philadelphia.

Mr. Reycraft: He has not——

The Court: So it is on the peripheral side. It doesn't enter directly into the problem that I am facing here and you are, so I will let you go on, but let's not spend days on this.

[fol. 2143] By Mr. Reycraft:

Q. Dr. Keith, with reference to the first page of your Summary of Findings and Conclusions what changes did you find in the banking structure of the Philadelphia area?

A. Well, we found that there had been a substantial reduction in the number of independent banks in the Philadelphia area, both in the County of Philadelphia and in the outlying, in the three contiguous counties.

Mr. Littleton: Objected to unless his statement is fixed as to time.

Certainly, you didn't find that between 1929 and the present time, did you?

The Witness: No. The years of the study were 1947 to 1956.

By Mr. Reycraft:

Q. What proportion of the number of banks did you find at June 30, 1957, compared to the beginning of your study?

A. I am not sure I get the question, Mr. Reycraft.

Q. Do your conclusions indicate about half as many banks; is that correct?

A. I believe that is shown in the tables when we made the study.

Mr. Littleton: If Your Honor please, I must object to Mr. Reycraft leading this witness. The witness is thor-
[fol. 2144] oughly competent.

By Mr. Reycraft:

Q. Will you refer to the second sentence of your summary, Dr. Keith?

A. The second sentence?

Q. Yes.

A. The reduction in the number of independent banks—as of June 30, 1957, there were, in this area, only about half as many banks as there had been at the end of 1947.

The Court: Where are you in the report?

Mr. Reycraft: The second page, Your Honor, of the summary.

The Court: Of the summary?

Mr. Reycraft: The second sentence, I should say. It is in the blue-bound copy.

The Witness: That's right. That statement is correct.

By Mr. Reycraft:

Q. Dr. Keith, referring to the third sentence of your summary, what did this reduction in the number of independent banks result from?

A. It resulted from bank mergers.

Q. Which you described as a wave of commercial-bank mergers?

A. Yes. I think that's right.

[fol. 2145] Q. How many banks were merged or absorbed during this period?

A. I believe the figure was 51.

By Mr. Littleton:

Q. I beg your pardon?

A. The figure was 51, as I read it here.

By Mr. Reycraft:

Q. As compared with how many new banks opening?

A. I believe there was only one new bank opened in the Philadelphia area during this period.

Q. What did your study show with reference to the number of new banking offices in the three counties established by de-novo branches as compared with mergers?

A. Well, I believe our study showed a large number of new banking offices to have been opened during this period.

Q. What does it show with reference to the number acquired by merger?

A. (No response.)

Q. Does it show that all but one were acquired as a result of mergers?

A. (No response.)

Q. Will you refer to the second sentence of the last paragraph?

A. The last sentence of the second paragraph, all but one [fol. 2146] of the new commercial-banking offices is acquired as a result of mergers, while the new savings banks —this was the early part of this period, I believe. I am talking about prior to 19——

Yes, all but one of the new commercial-banking offices were acquired as a result of merger, while all of the savings-bank offices were new establishments.

Q. Now will you refer to the second page of your summary?

A. This is branch banking; this is, I believe, across the county, the number of cross-county branches.

Q. All right.

A. This did not have relevance to the Philadelphia area, I mean Philadelphia County itself.

Q. Philadelphia County, you mean?

A. That's right.

[fol. 2147] Q. Will you refer to the second page, the beginning of the third paragraph, and state what your conclusions are with reference to the factors motivating the Philadelphia banks to engage in mergers.

A. Well, our conclusions were that the reason for the branch and merger activity on the part of the large Philadelphia banks was to get a foothold in the outlying counties to which some of their customers had moved and in order to draw in more deposits and to generally improve their competitive position in the four-county area.

Q. What relevance did the existence of established trade connections and existing customers have?

A. Well, I think we found that most of the large Philadelphia banks had established trade connections with manufacturing and retail firms. Some of these manufacturing firms had moved out of the center of Philadelphia into the outlying areas, both in North Philadelphia and in the contiguous counties. Retail establishments had also moved out, and there was therefore an incentive for the Philadel-

phia banks to try to maintain close connections with those customers in the outlying counties.

Q. Did you find that size was any factor in these movements?

[fol. 2148] A. Which movements, Mr. Reycraft?

Q. ". . . the motivations behind the recent branch banking and merger movement in the Philadelphia area have been predominantly economic, although the desire for bigness for its own sake is believed by some to have been of some importance."

Mr. Littleton: Objected to as being irrelevant—"believed by some."

Q. Was this one of the factors——

Mr. Littleton: Objected to.

The Court: The objection is overruled.

A. I think "believed by some" means that this was sort of a general view. We had no substantiation of this. This is an intangible thing which one cannot pin down. Size in a factor, I personally believe, and I think that this matter of prestige which was referred to yesterday by Mr. Potts may have been a factor here, but as far as our own study is concerned, this is merely reporting what was a general view, I think.

By the Court:

Q. You have no factual substantiation of it?

A. We did not study to find out whether or not size was a—well, let me qualify that a little bit. I think in some of the cases of these cross-county mergers a purpose behind the willingness of the merged bank to participate in the merger was to become a part of a larger institution, which would give them higher loan limits and more capable [fol. 2149] service from the city banks. In this sense I think size, from their standpoint, was a factor in agreeing to the merger.

By Mr. Reycraft:

Q. Dr. Keith, when you refer to the desire for bigness for its own sake being believed by some to have been of

some importance, to what persons were you referring at the time you prepared these conclusions?

A. Well, this is five years ago, and I am not sure——

By the Court:

Q. Were you referring to the practical banker or the theorist, Doctor?

A. Well, I think I was referring here to the talk on the street, rather than from the standpoint of the theorists.

By Mr. Reycraft:

Q. Did you interview anyone in connection with your study?

A. Oh, we interviewed a great many people in connection with our study.

Q. And some of your conclusions are based on these interviews?

A. Yes, to a certain extent we certainly incorporated the views we encountered in our interviews in our own findings. [fol. 2150] Q. What categories of people did you interview?

A. Well, we had a limited amount of time, and we didn't interview as many people as we would like to, but I talked with most of the bankers, a good many of the bankers both in the Philadelphia area and in the outlying counties concerning this problem, certainly some of the presidents of the larger banks in Philadelphia, or the men who were in charge of their branch operations, and we talked to a number of independent bankers in Bucks County, Montgomery County, and Delaware County.

Q. And did you talk to any others except bankers?

A. Generally speaking not, I think.

Q. So that your study is based primarily on discussions with bankers; is that correct?

A. It is based very largely on discussions with bankers who were participating in this study.

Q. Dr. Keith, will you refer to the third page of your summary, the second full paragraph——

The Court: Mr. Reycraft, I see a pattern developing here which I do not like. If you are going to read this in and say, "Is that your opinion?" I don't like that kind of

testimony. The book is here. I can read it as well as he can. If you want to question him on his conclusions, go ahead, but I don't intend to permit you to read this book [fol. 2151] in and say, "Is that so?" That is leading all the way, and I am not going to permit it. We have had objections on that ground, and I am just going to point up to you that that is the way it has to be from here in.

Now, if you want to reframe your strategy, we will take a ten-minute recess at this point.

(A ten-minute recess was taken at 10:55 A.M.)

Mr. Reycraft: Your Honor, I wish to state that on the basis of the ruling, I don't believe I can profitably pursue the examination. I wish to offer the survey, the summary of findings and conclusions, as representing the conclusions of the study commission.

The Court: Of the study group?

Mr. Reycraft: Yes, sir.

The Court: You are not being limited in any way, shape, or form in asking the good doctor any question about his ideas or anything else. I want you to understand that. To take Dr. Keith's group study and read conclusions reached by the group into the record is something that I am not going to permit. We have that. I can read it just as well as you can emphasize as part of the record the conclusions, but you have the good doctor here. He certainly [fol. 2152] did supervise this study. He has ideas. He is an economist and a thoroughly qualified one, and you are not being stopped in the slightest degree from questioning him to your heart's content on bank mergers, the present merger, or anything else. I want that understood, Mr. Reycraft. I want no inuendo in the record that I am cutting you off, because I don't intend to.

Mr. Reycraft: Perhaps I don't understand your Honor. What I will do is continue with my questioning, if Your Honor will permit me.

The Court: Provided you are not reading that volume in.

Mr. Reycraft: Yes, sir.

By Mr. Reycraft:

Q. Dr. Keith, did you reach any conclusions with reference to the question whether Philadelphia bank preferred to extend by merger rather than through de novo branches?

A. To expand by mergers rather than de novo branches?

Mr. Littleton: The answer is yes or no.

A. Yes.

By Mr. Reycraft:

Q. What was your conclusion?

Mr. Littleton: Objected to.

[fol. 2153] The Court: Overruled.

A. I think, as far as we could ascertain from talking with various bankers who were engaged in this operation, that there was some preference for acquiring bank branches through merger rather than through de novo branches, because when you acquire a bank through a merger, you get along with the bank its officers, its employees, its customer lines, and a somewhat more favorable reception in the community than you do when you come in with a de novo branch and have to start from scratch.

Q. Did you reach any conclusions with reference to the relative costs of expanding by merger rather than de novo?

A. We did not go into this in great detail. We would not be able to reach any such conclusion unless the banks themselves had been willing or thought it worthwhile to provide us with that information.

Q. What reasons did you find the acquired banks had for being willing to participate in mergers?

A. Well, the acquired banks had various reasons for being willing to participate in mergers, and I presume you are referring here specifically to the smaller banks outside?

[fol. 2154] Q. The mergers you studied, yes, sir.

A. We were particularly interested, of course, in the acquisition of small banks by the large Philadelphia banks. In some cases these banks saw an advantage in affiliation with a large Philadelphia bank. In some cases they had management problems such as Mr. Potts referred to yesterday, where you had the president and vice president who

were unable to carry on an aggressive banking operation in the community. They had no succession in line, and the easiest way out from the standpoint of preserving the institution and continuing to serve the community was to merge with a Philadelphia institution.

Q. Was it your conclusion that mergers of this type sometimes had beneficial effects on the community?

A. I think we had the impression that it did have beneficial effects on the community.

Q. As of the time you concluded your study, Dr. Keith, did you reach any conclusion with reference to the likelihood of continued mergers in the Philadelphia area?

A. Well, we did feel that the merger movement was probably not going to go ahead at as fast a pace as it had been proceeding between 1954——

Mr. Littleton: Keep your voice up, will you. I didn't hear that.

[fol. 2155] The Witness: We did feel that the merger movement across county lines particularly was probably not going to proceed at as fast a pace as it had been proceeding during this period between 1954 and 1956.

For one reason, the banks which were first absorbed tended to be the weaker banks, although this wasn't universally true, but, in any case, the banks which remained in the outlying communities usually reacted by strengthening their own organization, and they felt that, in effect, their competitive position was strengthened rather than weakened when one of their other competitors was absorbed by a Philadelphia bank. In other words, it tended to sharpen up, as we saw it—and some of the independent bankers, I think, more or less admitted this—the whole competition within the area. They had to introduce consumer loans, introduced techniques which the Philadelphia banks brought out there. So this was one reason for believing that it helped the communities to have mergers of this sort take place.

On the other hand, the further you go with these, of course, the price becomes higher, and although the several Philadelphia banks did pay a substantial premium to get into the communities, thinking particularly up in Bucks County and Bristol, and there were allegedly high premiums [fol. 2156] paid in some other cases, and, of course, the

fewer the banks left, the more Philadelphia banks would be competing for them, the higher the price, so that this, we thought, would ultimately slow down the process. Both the strengthening of the outside banks and the fact that the price at which they were willing to be absorbed might become a stopper from the standpoint of the acquiring bank.

Q. Why did you find these prices were becoming a stopper?

A. Well, I think any banker would probably agree that if you have to pay too high a price to acquire a branch, it may be better to wait and try your luck with a de novo branch later on.

Q. In your opinion, did the prices charged have any relationship to the competition among banks for the acquisitions?

A. I wouldn't know on that.

Q. You didn't reach any conclusion on that?

Mr. Littleton: He said he wouldn't know. Objected to.

By Mr. Reycraft:

Q. Did you reach a conclusion on that in your study? [fol. 2157] Mr. Littleton: Objected to. The witness said he didn't know.

The Court: The objection is overruled.

The Witness: Will you restate your question, Mr. Reycraft.

By Mr. Reycraft:

Q. Did you reach any conclusion in your study as to whether competition among banks in Philadelphia to make acquisitions had any bearing upon the price of those acquisitions?

A. Yes, I think we observed, as did anybody else, that where you have competition among banks for attractive institutions, that the price goes up.

Q. Did you reach any conclusions with reference to the mergers within the City of Philadelphia?

Mr. Littleton: Objected to. He said he made no study of mergers within the City of Philadelphia.

The Court: The objection is overruled.

A. I am not sure I understand your question, Mr. Reycraft. Conclusions with respect to what?

Q. The likelihood of mergers within the city proceeding much further.

A. Oh, I believe we did make a statement here to the effect that if it proceeded much further, it might attract [fol. 2158] the attention of the regulatory authorities to the possibility of reduced competition within the city.

Q. Did you conclude, therefore, that it was likely to proceed much further.

By the Court:

Q. Well, you weren't faced with what is known as the Cellers amendment at that time, which required all bank mergers to go through a certain process?

A. That is true. We observed that and we felt that there might be resistance to further mergers within the Philadelphia area.

Q. Including an act of Congress? You hadn't contemplated that at the time, had you?

A. I doubt it.

By Mr. Reycraft:

Q. Dr. Keith, what did your study show with reference to any change in the number of insured commercial banks with head offices in Philadelphia during the period of your study?

A. Any change in the number of head offices?

The Court: Are you talking about commercial banks now?

Mr. Reycraft: Yes, sir.

The Witness: I think we found during the period of the [fol. 2159] study that the number of independent banks in the Philadelphia area fell from—I can't keep these figures in my mind. I think we started out with 36 banks in 1947 and we were down to 16 in 1956. These were insured commercial banks, I believe.

By Mr. Reycraft:

Q. How many of these banks were eliminated by acquisitions?

A. I believe all of them were.

Q. Did you reach any conclusions with reference to the change in the concentration of banking assets in Philadelphia during this period?

A. Yes, we introduced statistics which had worked up, referred to earlier, showing the change in the concentration of bank assets in the Philadelphia area.

Q. What did your statistics show? . . .

Mr. Littleton: Will you give us the reference, please.

A. Table A-X in the main document, and this showed that the—well, the largest bank as of December 31, 1947, in Philadelphia proper controlled or represented 23 per cent of the total assets, commercial banking assets, in the city. As of June, 1950, this was 22 per cent, and as of June 30, 1956, this was 25 per cent. Of the two largest [fol. 2160] banks, as of December 31, 1947, the two largest banks represented 41 per cent of the total banking assets in the city; as of June 30, 1950, 41 per cent; and as of June 30, 1956, 48 per cent.

We also found that for the four largest banks the ratios rose between these dates from 56.5 to 73.1 per cent.

By the Court:

Q. Was that because the assets of five banks on June 30, 1956, were included in the first four?

A. Yes, the mergers would have shot these percentages up.

By Mr. Reycraft:

Q. So that this increase in concentration which you have described resulted from the mergers?

A. Mainly the result of mergers. Of course, I presume the larger banks may have been growing a little faster than some of the smaller banks, even so, but I don't think you would have had the changes in these ratios had it not been for the mergers referred to earlier.

Mr. Littleton: You said that last as an assumption, that the larger banks had——

The Witness: This is an assumption purely.

[fol. 2161] Mr. Littleton: You have nothing on which to base it?

The Witness: I have no facts here in the study.

Mr. Littleton: I move that it be stricken.

By Mr. Reycraft:

Q. And if they——

Mr. Littleton: I have a motion, Mr. Reycraft.

Mr. Reycraft: I am speaking to your motion.

By Mr. Reycraft:

Q. If they had not grown, all of this increase would be attributable to mergers?

The Court: I don't think it is necessary to strike it. I am going to overrule the objection, because the doctor stated very definitely that it had no basis in fact. It is a calculated assumption, and that is all I am going to accept it for.

By Mr. Reycraft:

Q. Dr. Keith, did you examine the changes in the number of commercial banks in the four-county area between 1947 and 1956?

A. Yes, we did.

Q. What conclusion did you reach?

A. Well, we found there too that there were——

[fol. 2162] Mr. Littleton: The reference, please.

The Court: A-X.

The Witness: Well, now, let's see. You will find on Table A-X also a similar statistical presentation for Philadelphia and the contiguous counties. In other words, this would be the entire four counties.

Mr. Reycraft: Yes.

The Witness: And this shows increases in concentration of bank assets for the same years. Do you wish me to read those?

[fol. 2163] By Mr. Reycraft:

Q. If you can explain them generally without reading them that will be preferable.

A. Generally, I think perhaps the most important figure is the one for the four largest banks again, where the

percentage of assets within the four-county area controlled by the four largest banks was 49 per cent in 1947 and 64½ per cent in 1956.

Q. What change took place with reference to the number of banks in the four-county area?

A. Well, the number of banks in the four-county area, I think there are some figures in Chapter II on that, page II-12. At the end of 1947 there were 69 commercial banks which had offices in Bucks, Delaware, or Montgomery Counties. By June 30, 1956, this was down to 39.

Q. Did you study the source of these acquisitions, that is, whether the number of banks acquired by home-county banks as compared with those acquired by Philadelphia banks?

A. Yes. We did.

Q. What was your conclusion?

A. Well, you will find on Table II-B here the number of independent banks—Chapter II, page 13, the number of independent banks eliminated by absorption by county banks (that is banks within the same county) 14 out of a total of 31 eliminated by absorption; and 17 by Philadelphia [fol. 2164] banks.

Q. Dr. Keith, did you study the change in the banking structure in Delaware County?

A. Yes. We did.

Q. Did you examine the number of new banks chartered in that county?

A. I believe there were no new banks chartered.

Q. Pardon me?

A. I believe there were no new banks chartered in that county during the period of our study.

Q. Were there any new banks chartered in any of the three counties in that study?

A. I think the Bank of Old York Road was the only bank in the area. Let's see—that would have been in Montgomery County, I believe.

Q. Did you reach any conclusion with reference to any possibility of the effects on competition of the mergers you have just described?

A. Well, as I——

The Court: Read that question back.

(The pending question was repeated by the reporter.)

The Court: You can answer that yes or no, Doctor.

[fol. 2165] The Witness: Yes.

By Mr. Reycraft:

Q. What was it?

A. Well, we described a lot of mergers here. I think, as I indicated before, we reached conclusions concerning the mergers of Philadelphia banks with smaller banks in Bucks, Montgomery, and Delaware Counties; that, by and large, these tended to intensify competition in those latter counties.

Q. Did you reach any conclusion with reference to the effect on the range of choice of persons residing in those areas of banking services?

A. We did not undertake to question businessmen concerning the range of choice with respect to banking outlets.

I think you will find a table in here at the end, toward the end, in an appendix here, in which we indicate the number of competitive commercial banking offices in communities in Bucks, Delaware, and Montgomery Counties. This is Table A-XII.

The Court: A-what?

The Witness: Table A-XII, in Appendix A.

This is as of November 1956, which would have been toward the end of the period of our study.

You will notice here we indicate the number of competitive units here in each of the three counties. We also indi-[fol. 2166] cate the number of units in which there was a county head office in which there was one county branch, and in which there was one Philadelphia branch.

In the first category these would all be communities which only had one banking office, which indicates the kind of office it was. Then, as you come on down, you have communities with two and three competitive units in them.

I think the general trend at the time was for some reduction in the number—you can see—of course, this doesn't indicate time. This is only as of the close of the period, but we did find that throughout this period, particularly in the three counties, the number of small banks—this is

shown, I think, in Table A-XIII—that the number of very small banks, those with deposits under $2,000,000, were sharply reduced during this period, and even those with deposits from between $2,000,000 and $10,000,000 tended to fall.

On the other hand, the banks with deposits of more than $10,000,000 tended to go up, which would be natural when you are merging small banks into larger ones.

For example, you will notice in Bucks County that in 1947 there were eleven banks with deposits between $2,000,000 and $4.9 million. By 1956 these had been reduced to four banks; and similar figures are shown for the other [fol. 2167] counties.

By Mr. Reycraft:

Q. Did you reach any conclusion with reference to the effect on competition which might result if the merger movement you described were to continue in the City of Philadelphia?

Mr. Price: Objected to.

The Court: Overruled.

The Witness: Yes. We reached a conclusion that this might encounter some opposition from the regulatory authorities, I believe.

By Mr. Reycraft:

Q. Did you reach any conclusion independently with reference to the effect on competition?

A. I do not think we did.

Mr. Reycraft: I would like to refer him to the text, Your Honor, page 8 of the summary.

The Court: Refer him.

By Mr. Reycraft:

Q. At page 8 of your summary,——

A. Yes.

Q. —at the end of the second paragraph, does that refresh your recollection?

A. Let's see. Where this says——

"On the other hand, if the merger movement were to [fol. 2168] continue to reduce the number of competing units in the City of Philadelphia and some of the larger communities in outside counties, competition could be significantly limited."

By the Court:

Q. You said it could be, but you didn't say it would be?
A. That is correct.

By Mr. Littleton:

Q. And you said "lessened," not "limited"?
A. "Lessened," I think this is.

By Mr. Reycraft:

Q. It could be substantially lessened?

Mr. Price: He said "significantly."
The Witness: "Significantly lessened."

By Mr. Reycraft:

Q. Dr. Keith, did you give any attention in your study to the adequacy of regulations for banking mergers?

A. Well, we looked a little into the regulatory aspect of the problem, yes.

Q. Did you reach a conclusion?

A. Well, I think that we indicated in here there did not appear to have been any, as of the time of this study, any special——

Well, you have to depend on whether or not you were [fol. 2169] talking about the state regulatory authorities or about the federal.

Q. Well, will you start with the federal?

A. As far as the federal was concerned, we could find no evidence that the Comptroller of the Currency had raised serious objection to any of the mergers which had taken place in the country at large, as a matter of fact.

Q. Did you examine the number of applications which

had been submitted to the Comptroller during the period of your study?

A. Well, we had access to material which was presented by the Comptroller in the hearings before the Antitrust Subcommittee of the Committee of the Judiciary, House of Representatives, at the Eighty-Fourth Congress, First Session; and in these hearings, I believe, Mr.——

I think we made a reference in our document that there had been some 376 applications for mergers among national banks, and all of these 376 applications had been approved by the Comptroller of the Currency.

Q. You found that none had been disapproved?

A. None had been disapproved.

Q. Out of 376?

A. That's correct.

Q. Did you reach any conclusions with reference to the [fol. 2170] adequacy of the attention given by the regulatory authorities to the problem of controlling home-county mergers in Pennsylvania?

Mr. Price: Objected to.

The Court: Read the question back.

(The pending question was repeated by the reporter.)

The Court: I will sustain the objection to that question. I don't think that the doctor should be put in the position of having to answer it.

By Mr. Reycraft:

Q. Did you reach any conclusion, Dr. Keith, with reference to the question of whether there was any basis for concern with respect to further mergers among remaining Philadelphia banks at the time of your study?

Mr. Price: Objected to.

The Court: Read it back.

(The pending question was repeated by the reporter.)

The Court: Concern to whom?

Mr. Reycraft: For the public.

The Court: Who are the public?

[fol. 2171] Mr. Reycraft: The users of bank services, primarily.

The Court: In the United States or in Philadelphia?

Mr. Reycraft: In Philadelphia.

The Court: I will overrule the objection on that basis.

The Witness: Well, I think we said in IV-3 the fact that there has been a reduction in the number of competing banking units in the area suggests the possibility of lessened competition, although it need not mean this.

By Mr. Reycraft:

Q. I believe you also——

Mr. Price: I move the answer be stricken as not responsive to the question in the respect that it was limited by the Court.

The Court: I think it was. I will deny your motion.

By Mr. Reycraft:

Q. I would like to refresh your recollection also by referring you to V-46.

A. Yes?

Q. Would you read that page and see whether it refreshes your recollection?

A. V-46?

[fol. 2172] Q. Yes, sir.

The Court: Read it to yourself, Doctor. I don't want it in the record.

The Witness: Yes. I think what we were trying to point out here was that particularly with respect to the state authorities, their prime concern appeared to be with the decline in the number of banks in the outside areas, particularly as a result of the intercounty mergers.

Whether this was concerned with too much danger of monopoly or too much competition in the area, I don't think is the case. I think we observed here that possibly more concern, more attention should be given to what was occurring within the City of Philadelphia itself, where the state authorities did not appear to have—well—raised similar objections or given similar attention to the merger movement.

By Mr. Reycraft:

Q. Did you reach any conclusion with reference to the importance of the soundness of the institutions involved in the merger?

A. The importance of the——

Q. The soundness, yes, sir, the financial soundness of the institutions.

The Court: In Philadelphia?

[fol. 2173] Mr. Reycraft: Yes, sir.

The Court: I note that he said he wouldn't recommend two sound banks in a two-bank town being merged and eliminating competition, but we are talking about Philadelphia.

I think the question has been limited as of now to Philadelphia.

Mr. Reycraft: He also says or reduced numbers signifi. cantly by fusing two sound and viable institutions.

The Court: Will you read that, Doctor? Are you talking about Philadelphia?

The Witness: I think we are talking generally here.

The Court: I thought you were, too.

By Mr. Reycraft:

Q. Are you including Philadelphia?

A. I presume we had in mind the whole area.

Q. Did you conclude, Doctor, that there was any basis for concern about further mergers among remaining Philadelphia banks?

The Court: Concern to whom?

Mr. Reycraft: For the public.

The Court: Isn't that the question you just answered?

[fol. 2174] Mr. Reycraft: Would you read the answer to that question?

The Court: If you haven't answered that question, Doctor, go ahead and answer it.

I assume there is an objection.

Mr. Price: I object.

The Court: And that it is overruled.

Mr. Price: I objected before; I guess I ought to object again.

The Witness: Well, I think, to repeat what I said earlier, we did indicate feeling that there might be concern on the part of the regulatory authorities if there were any further mergers within Philadelphia or the merger movement went much further.

The Court: We have had that, Doctor.

The Witness: Yes.

The Court: So you are a good prophet.

By Mr. Reycraft:

Q. Do you have any prophecy at this time, Doctor, as to the future?

A. I have no prophecy. I have not followed this situation.

As I indicated earlier, my interests lie in other directions.

Q. Dr. Keith, did you, in your study, give any considera-
[fol. 2175] tion to the type of competition in which the merged banks engaged in Philadelphia?

A. In Philadelphia or in the four counties?

Q. Philadelphia first, then in the four counties.

These banks have offices in all counties, I assume.

A. Yes. We observed that competition is, of course, a multiple thing. I mean that's why we included within this study an examination of savings and loan associations, finance companies, mutual-savings banks, and credit unions that, to a greater or lesser extent, in some aspects of their business commercial banks are in competition with these other institutions.

Q. Yes.

What consideration did you give to the method of competition among commercial banks?

A. Well, we tried to determine by questionnaire and interview the ways in which commercial banks competed among themselves with these other institutions with, I think, particular reference to the competitive behavior of a Philadelphia bank going out into one of the three contiguous counties.

Q. Did you reach any conclusion with reference to price competition and interest rates among commercial banks in Philadelphia?

[fol. 2176] A. Yes. As far as we could observe from the

interviews which we had, price competition is not a major factor in the competition among the commercial banks. They do not try to take customers away from their competitors by offering loans at lower interest rates, et cetera.

Q. Did you find any competition in service charges?

A. Well, we found some difference in service charges. In a sense, one thing which we observed was that when a Philadelphia bank went out into the suburban counties, they usually introduced the same service charges which were in effect in the home office, and frequently the bank which they took over either had lower service charges or in some cases had not imposed any service charges.

This may have made them in a sense somewhat less competitive with the local institutions, if the local institutions continued the old practice. In some cases the local institutions, following the entry of the Philadelphia bank, might themselves introduce service charges.

Q. Or increase their service charges?

A. Or increase them.

Q. Did you reach any conclusions with reference to the effect of paying premiums for the acquisitions which you have described in the four-county area?

The Court: the effect of paying premiums for acquired [fol. 2177] institutions? The effect on whom?

Mr. Reycraft: The capital structure of the acquiring bank.

The Court: That makes sense.

Go ahead, Doctor.

The Witness: Well, we did not go into this question of premiums in great detail.

As was previously indicated, we tried to compute the extent to which premiums had been paid, but since the mergers in which we were particularly interested were the mergers, or one type of merger in which we were particularly interested was the merger where a strong bank was picking up a weak bank—in those cases there were no premiums.

I think the premiums occurred in the case of the acquisition of the two banks up in Bristol and some of the subsequent acquisitions, I believe, involved some premiums; but this was a—I think we pointed it out as something we did not go into in any great detail.

I think on page IV-29 one aspect of the recent merger

movement that has given rise to some critical comment has been the large premiums paid in connection with some of these mergers.

By Mr. Reycraft:

Q. Did you make any study of the percentage of the premium paid, the amount of the premium paid as a per-
[fol. 2178] centage of deposits?

A. Yes. I think we introduced some statistics here bearing on that.

Q. What did your study show in that regard?

A. Well, that is shown on Table IV-D on page IV-30, by percentage groups, indicating the per cent of the total deposits of the premiums paid for acquired banks in the Philadelphia area, expressed as a percentage of total deposits and net worth of the acquired bank.

There were 15 cases of cross-county mergers and 10 within Philadelphia itself.

Q. And how many of those involved the payment of premiums?

A. Well, these were the 15 cases there. Sometimes the premiums were very small.

Mr. Littleton: If Your Honor please, I must object to the relevancy of this kind of testimony. There has been no definition here as to Philadelphia National Bank or Girard Trust Corn Exchange.

These are just general figures and I can not see the relevancy to the issues before this Court.

Mr. Reycraft: They include acquisitions——

Mr. Littleton: I object to it.

Mr. Reycraft: They include acquisitions in which both
[fol. 2179] the Philadelphia National Bank and the Girard Trust Corn Exchange——

Mr. Littleton: Mr. Reycraft, I have an objection on the record.

Mr. Reycraft: n addressing myself to your objection.

Mr. Littleton: You are asking the witness a question.

Mr. Reycraft: I am speaking that the tables include references to acquisitions in which Philadelphia National Bank and Girard Trust Corn Exchange Bank engaged, and I think they show that one of the reasonable conclusions that

can be reached as to premiums is that one of the reasons was the elimination of competition.

Mr. Littleton: I still object because it doesn't appear anywhere in these tables that they are Philadelphia National Bank or Girard Trust Corn.

They may have been, but it doesn't appear in the table and the witness hasn't stated.

The Court: He hasn't had a chance.

By the Court:

Q. Does this include Girard Trust and Philadelphia National acquisitions?

A. Well, in so far as they engaged in mergers during this [fol. 2180] period.

Q. But you have no independent recollection now, do you, Doctor, whether either one of them paid a premium in any particular acquisition?

A. (No response.).

Q. I am suggesting that you don't because I can't see how you could keep that in your mind.

A. This detail slips me, I am afraid.

The Court: Then I will sustain the objection.

Mr. Reycraft: I would like to ask the same question, Your Honor, with reference to the percentage of net worth of the acquired banks; and I assume there will be the same ruling.

Mr. Littleton: The same objection.

The Court: The same ruling.

By Mr. Reycraft:

Q. Did your study, Dr. Keith, include any examination of the length of time it took borrowers to get loans processed at branches after acquisition?

A. Well, I am not——

Mr. Littleton: That is objected to unless it is directed to either the Philadelphia National Bank acquisitions or the Girard Trust Corn Exchange acquisitions.

Mr. Reycraft: Your Honor, I submit that a study of [fol. 2181] competition among commercial banks in the four-county area, which is the most relevant area in this case, is highly relevant on the issues here.

The question of elimination of competition and tendency to monopoly resulting from this merger can be judged not only by reference to the fact that the two banks themselves, but also by reference to general competition in the area, and I think that on that basis the witness should be permitted to testify concerning competitive effects of commercial-bank mergers in this area.

Mr. Littleton: I submit, if Your Honor please, that Mr. Reycraft's argument in completely contradictory.

The Court: I pointed out that this is in a field that is quite gray. It is certainly not black-and-white, and I have to allow perhaps untoward and untold leeway.

I am going to overrule the objection.

Mr. Reycraft: Would you read my question?

The pending question was repeated by the reporter as follows:

"Q. Did your study, Dr. Keith, include any examination of the length of time it took borrowers to get loans processed at branches after acquisition?")

The Witness: My recollection is that we made no sys- [fol. 2182] tematic attempt to determine the differences between the time it took to make a loan before the merger had taken place and after it had occurred.

On the other hand, in discussing the general effects of mergers of a city institution with a bank in one of the three contiguous counties, it was quite clear that in some cases this could lead to some delay in getting a loan. This is because the city bank, which took over the bank outside, would frequently set up standards and procedures for examining loan applications, requiring certain information from the borrower which had to be analyzed; and this could take some time.

I encountered stories both ways.

You could get an example cited, which I never was, of course, able to verify, of a man who could have walked into one of the local banks and gotten a loan on his signature and was kept waiting for three weeks after a merger.

On the other hand, there were——

By the Court:

Q. What happened on the second time he went around after he waited three weeks?

A. He went to another bank, I was told. He didn't come back.

Q. In other words, he had to re-establish credit with the new bank?

[fol 2183] A. In a sense, yes.

Q. But I am interested in him going back the second time. How long did it take after he had re-established his credit?

A. This would be the other side of the story, I think, that once the machinery had been set up and was well oiled, then the contention made by the banks themselves on this particular point was that they could get a loan for a man within (well, again, my memory may—this was five years ago that I asked these questions) but say within a matter of a day or 24 hours, possibly 48.

By Mr. Reycraft:

Q. Did your study include any examination of the effects on banking costs of the mergers you examined?

A. We inquired into this and we asked in the questionnaire which we sent out to the various banks what effect this had had on banking costs; and I think the answer we got back was one which we had expected, namely, that it hadn't affected banking costs very much.

Q. It what, please?

A. It did not affect banking costs very much.

The reason for this was one, I think, alluded to by Mr. Potts yesterday, namely, that when you went into an outlying bank and took it over you kept on all of the old employees; so that there was no opportunity for economy here. You [fol. 2184] sometimes incorporated them within your pension plan and that increased expenses; and that any economies which were going to develop out of this would be expected to occur in the longer run and not immediately after the merger.

So the answers we got to these questions were generally no, that no substantial economies had been effected.

On the other hand, of course, in the matter of clearing checks, in the matter of being able to use the more elaborate

machinery which a larger bank would employ, undoubtedly there were economies here; but these were offset by the diseconomies of having to absorb an institution and perhaps step up expenses temporarily.

Q. You didn't make any study, did you, of the economies which might occur over the long run?

A. No. I don't think we were in a position to go into that detail.

Q. Did you find that the desire to reduce expenses was stated to be a factor in any of these mergers?

A. Would this be on the side of the merged bank or the acquiring bank?

I think this is one of the reasons, perhaps, for going into a merger. Let's say a smaller bank out in the outlying counties, to the extent, let's say, that it tries to provide trust services for its customers, may find this an expensive [fol. 2185] operation given the number of trust accounts which they are able to attract.

Q. If I may refer you to page 10 of your conclusions,—

A. Which is this, the summary?

Mr. Littleton: Do you mean the summary?

Mr. Reycraft: The summary and conclusions.

The Witness: Yes?

By Mr. Reycraft:

Q. Will you read the last paragraph in that section and see whether that refreshes your recollection?

A. The last paragraph on page 10?

Q. Yes.

A. "The recent decline in the number of independent unit banks"——

Q. No, at the top of the page, above the V.

A. "The branch banking and merger movement does not appear to have made any very substantial contribution to the reduction of the banking costs in the Philadelphia area. The desire to reduce expenses has been infrequently mentioned as a motivating factor behind recent mergers, and the economies that have been cited following these mergers have been quite modest. But in view of the limited time that has elapsed since most of these mergers were effected, it is probably too soon to reach a final conclusion on this [fol. 2186] point."

Q. And that was your conclusion at that time; is that correct?

A. That was as far as we could see at that time.

The Court: Is it any different from the conclusion that he expressed here this morning, independently of that?

Mr. Reycraft: I thought it was, Your Honor.

The Court: I didn't see it. I understood everything he said to be concluded by the language he just read.

By Mr. Reycraft:

Q. Did your study include any examination of the size of the resources a commercial bank ought to have in order to realize economies of scale?

A. Well, that is an intriguing question which given more resources and time, we would have, I think, liked to have looked into; but I can't honestly say that we made any significant move in this direction. I mean we could——

I pointed out earlier that the reason, as we saw it, for the disappearance of so many of the very small banks, those between $2,000,000 and $10,000,000, some of these absorbed by in-county institutions, some of them absorbed by Philadelphia institutions, we felt was to some extent an [fol. 2187] attempt to effect greater efficiency through a larger institution.

Q. Is your answer that you did or did not reach a conclusion on this subject?

A. I think we reached a conclusion that the very small bank was perhaps suffering from diseconomies of small size.

I think we also had the feeling that when you got up to a bank between $10,000,000 and $50,000,000, particularly out in the counties, that they felt that they could compete effectively with larger Philadelphia banks, even though they might not be able to afford or use all of the mechanical equipment which cuts down costs and processing checks and so forth.

Certainly, the bankers we talked to in Montgomery and Bucks Counties on this point seemed to feel that they could operate, that they didn't need to merge with a larger institution in order to continue to do a profitable business in their existing size.

[fol. 2188] Q. Did you reach any conclusion or did you make any study of the advantages or disadvantages to the public of new banking offices being established by merger or by de novo offices?

A. You mean which was more in the interest of the public?

Q. Yes.

A. Oh, I think this would vary according to the general situation. I mean, you understand, of course, that in a sense the regulatory authorities have two problems: One is too few banks and the other is too many banks or banking offices. Generally speaking, the state authorities seem to lean in the direction of making it difficult for new branches to be established outside of Philadelphia County, so that the procedure usually followed, if a bank wanted to acquire a branch, was to acquire it by purchase or by merger.

In case they wished to establish a de novo branch in one of the outlying counties, this had to be approved by the Secretary of Banking and also by the Banking Board, and of course, on the Banking Board would be bankers reflecting the interests of the banks in the county being thus invaded. Furthermore, they gave an opportunity for any local banks which opposed the establishment of this new [fol. 2189] branch to be heard, to present evidence indicating that there were adequate banking resources in the county already and that there was no need for this new banking office.

This, I might say, contrasts a little bit in terms of the procedure followed within the city, where the general attitude of the Secretary of Banking seemed to be that if a commercial bank wanted to establish a new branch, this was its own business, and if this resulted in a loss to the bank, that was its concern and not the concern of the banking authorities.

By the Court:

Q. Was it your conclusion, then, that one of the prime reasons for the mergers cross-county was because of this situation that you have just described?

A. I think so, that in a good many instances they felt that this was the only way that they could, as I say, follow their customers into these counties, since the obstacles in

the way of getting approval of a new branch would be fairly great.

By Mr. Reycraft:

Q. Dr. Keith, on the basis of your study of the banking structure in Philadelphia and the three contiguous counties, do you have an opinion as to whether there would [fol. 2190] be an adverse effect on competition if the second and third largest banks in Philadelphia were merged?

Mr. Littleton: The answer is yes or no, Doctor.

A. Do I have an opinion?

Q. Yes, sir.

A. Yes, I think I have an opinion.

Q. What is it?

Mr. Littleton: Objected to.

The Court: Overruled.

A. Well, this is only an opinion, I might say, and it is an opinion which is not based on a continued followup of the developments which have occurred since the period of my study, but my opinon is that there would still be a considerable amount of competition within the Philadelphia area, knowing the other banks that are doing business following this merger.

Q. In your opinion, would a substantial amount of competition be eliminated between the two banks?

A. Well, I can only observe that as far as the particular aspect of this which we looked into, namely, the operation in the contiguous counties, that the operations of the Philadelphia National Bank do not overlap very significantly the [fol. 2191] operations of the Girard Corn Exchange, which is concentrated in Delaware County and in Ambler, whereas the Philadelphia National Bank's offices are out, generally speaking, along the Schuylkill, up that way.

Q. Do the home offices compete, in your opinion?

A. Well, I assume that all the larger banks compete with each other in this area, but I have no inside information on the intensity of competition among them.

Q. Would it be eliminated, in your opinion, if the banks were merged?

A. Well, in so far as there is competition between the Girard and the Philadelphia National, I assume that a merger would eliminate it.

Mr. Reycraft: That is all.

Mr. Littleton: I have no cross-examination, Doctor.

Cross-examination.

By Mr. Price:

Q. Dr. Keith, you concluded that the merger movement that you described was the result of a need for further banking facilities; is that right?

A. Well, in so far as this was the merger movement as between the out-of-county banks——

Q. That is right. The establishment of branches outside of Philadelphia was the result of a need for addi-

[fol. 2192] tional banking facilities, was it not?

A. Yes. I think the outlying counties were growing. They needed more banking offices. They needed possibly a wider variety of services than were initially being provided by the local banks. This would be more important in some communities than it would be in others.

Q. But in general the acquisition of outside county banks or the establishment of branches provided facilities which the smaller banks had not performed and been able to furnish and therefore their services to the community were improved, were they not?

A. Well, this again depends upon the kind of community. I wouldn't want to say that none of these outlying banks had been able to provide services to their customers. Some of these banks were, and some of them who have remained independent still are, as far as I understand, quite able to furnish the ordinary run of commercial banking facilities.

Now, there are some special services which I presume the Philadelphia banks can offer which these smaller banks cannot, but through the correspondent relationships which they would have with the Philadelphia banks, I presume that this would not be too much of a detriment from the standpoint of these outlying communities.

[fol. 2193] Q. You spoke before of the additional services that many of these banks became able to render as a result

of merger, such as perhaps trust facilities, which they didn't have before.

A. Yes.

Q. Increased size of loans. They were additional services that were not available in all cases, were they?

A. Yes. For instance, the Jenkintown Bank and Trust Company, the Montgomery Bank in Norristown, have, let us say, trust departments. I think that what happened was that in some of the cases, and this was particularly true the further you moved out of Philadelphia, or I believe there was a situation in Lansdale where you had a rather unprogressive bank that probably wasn't serving the community too well, and when the Philadelphia National Bank went out there it probably did a good deal to add or supplement the services which were available to the local businessmen in that area; but there were other banks in the outlying area, I think, which were much more alert to what modern banking meant and were trying to provide it to their customers.

Q. I didn't mean that they all either required or desired to merge, and I think you found that a number of them were sufficiently well staffed and independent to be able [fol. 2194] to——

A. Oh, yes, some of them were quite uninterested in any merger.

Q. That is right, but the ones that were interested were interested because they had internal needs that could be met only by merger or by assistance from the outside; isn't that right?

A. This was true. You have two different situations, I think. There are some banks which, either because they have a problem of management succession or because they have a problem of high costs which they don't know how to cope with or because they have a problem of not being able to provide the services demanded have to look around for some solution to this problem, and the merger solution is an attractive one. On the other hand, there were other mergers where I think the initiative probably came from the Philadelphia banks themselves, and where the principal appeal, perhaps, to the local institution was perhaps more profits for stockholders. I mean the terms of the merger were attractive enough to make them feel they could do

better by becoming a part of the Philadelphia institution than to stay an indepedent in their own locality.

Q. In any event, it was a matter of choice with the [fol. 2195] smaller banks?

A. Oh, yes. None of these were forced into it.

Q. And they all considered that they were improving their position by virtue of the merger, as far as you could tell; is that not so?

A. As far as I could see, this was the case.

Q. And as far as you could see, the effect of these mergers was beneficial to the communities, was it not?

A. In this particular case I think our general conclusion was that this was beneficial to the communities concerned. In fact, we, of course, felt that a kind of mixed banking system in w..ich you have both local and city institutions is perhaps the best combination, since a man is free to deal with either a local institution or with a Philadelphia institution as he sees fit.

Q. And you found that at least in certain instances an improved competitive situation had sharpened up the competitive activity of the banks?

A. Yes, I think we found that in a number of instances.

Q. And that the effect of the branch banking and merger movement, as you described it, improved the quality of banking services in many parts of this four-county area?

A. That is correct.

[fol. 2196] Q. You found, did you not, on this general subject of competition that competition among the banks in the area was considerably keener at the time of your examination than it was, say——

Mr. Reycraft: I object to the question. I don't mind your leading him, but I think you ought to let him testify.

Mr. Price: This is cross-examination, and I am entitled to lead him, Mr. Reycraft.

Mr. Reycraft: Yes, but not to testify.

Mr. Price: I am asking him a question. He can testify.

By Mr. Price:

Q. I am asking you whether you didn't find, as a result of your examination of this problem, that competition among the banks was keener than it was ten years before.

A. In many of these communities outside of Philadelphia this was certainly our observation.

Q. Did you not also reach the conclusion that the growth of business and the growth of the economy and of industry in the area required larger banks than had been the case before or that had been needed before?

A. Well, I think——

The Court: Which area are we talking about?

[fol. 2197] Mr. Price: Philadelphia and the four-county area.

The Court: Are you talking about Philadelphia or the outside area? What are you talking about?

Mr. Price: Philadelphia and the four-county area.

The Court: Read the question.

(The reporter read as follows:)

> "Q. Did you not also reach the conclusion that the growth of business and the growth of the economy and of industry in the area required larger banks than had been the case before or that had been needed before?"

A. Well, I think we suddenly found that the growth of these suburban and outlying communities in many cases meant that the small bank which had previously served them wasn't able to do so as effectively as it had before this growth and expansion. In some cases this was a matter of availability of offices in newly developed communities. In some cases it could have been the growth of business in these areas and the movement of business into these areas. The local banking establishments, most of which were quite small, knowing the limits upon their lending [fol. 2198] capacity, could presumably not serve the local community, because many of these business firms as I understand it out there could and did come into Philadelphia for a good part of their loan business. Of course, if a Philadelphia bank could acquire a branch out there, that put it in a somewhat better position to compete for that kind of account. If you could offer them a local office to handle their day-to-day needs, you might be able to get some of their loan business.

By the Court:

Q. Dr. Keith, when you said that they were following their customers into the outlying area, you didn't think they were doing it for a charitable purpose, did you?

A. No, I did not.

Q. You thought they were doing it for profit?

A. Oh, yes, I believe that all of these people that have gone out have done so with the idea of improving their profits by so doing.

Q. But your testimony in chief, as I understood it, was related primarily to the Philadelphia banks going into these three counties.

A. This was the problem, of course, that we were primarily concerned with.

The Court: I thought you made that clear earlier.

[fol. 2199] By Mr. Price:

Q. You found a correlation between the size of banks and the size of their customers, did you not?

A. I don't know that we studied this particularly, but, of course, the Federal Reserve Board in Washington made such a study and did come out with a finding that there was a correlation between the size of loans and the size of banks. Obviously you can't have very large loans on the books of a very small bank.

Q. And didn't you find that there was competition among the larger Philadelphia banks outside the four-county area, competition with New York banks?

A. This we did not look into.

Q. I beg your pardon?

A. I say, this we did not look into.

Q. You didn't look into it?

A. I don't think you will find anything——

Q. Will you turn to Page I-24 of your report.

A. Yes.

Q. The last line.

A. Last paragraph? Where it says, "There is a considerable correlation between the size of banks and the size of customers"?

[fol. 2200] Q. Yes, will you read that.

A. "The largest banks compete in a national market." Do you wish me to read further?

Q. Yes, the rest of that paragraph.

A. "Furthermore, banks competing in this national market must keep up with the growth of banks in other cities. Banks in New York City are, for example, concerned over the growth of large banking units in the Far West and elsewhere, while Philadelphia banks are concerned about maintaining their competition position in the national credit market against growing institutions in such cities as Chicago, Cleveland, Pittsburgh, and Boston."

Q. That was your conclusion, was it not?

A. This was a conclusion based on a general understanding of the nature of banking competition throughout the country.

Q. I say, it was your conclusion, was it not?

A. I would agree with this, yes.

Q. Did you find also, Dr. Keith, that the concentration in banking assets in Philadelphia was somewhat less than it was for comparable size cities in the country? Do you recall that?

A. Well, I think we had a table in the appendix back here in which we undertook to compare—Table A-XI—[fol. 2201] in which we compare the percentages of total commercial bank assets owned by the largest bank in principal financial centers as of June 30, 1954.

Q. That shows their relative positions in that regard, does it not?

A. Well, it shows that the largest four banks in the Philadelphia area controlled or represented 69 per cent, I think, of total bank assets in this country, as compared with some larger and some smaller ratios in other cities. Do you wish me to indicate some of the cities in either category? It is higher than in New York, obviously, since you have larger banks there, but lower than Providence, Pittsburgh, Minneapolis, Cleveland, Boston, Chicago, Detroit, Dallas, Atlanta, Richmond, Kansas City, St. Louis, Baltimore, Philadelphia—Baltimore, and then you come to Philadelphia—so that at that time Philadelphia would be, with respect to the proportion of assets in the community held by the largest four banks, would have been fairly near the bottom of the list.

Q. Dr. Keith, you included in your report a consideration of some of the competition that was afforded commercial banks by non-commercial bank sources.

A. Yes.

Q. And that is why you included the savings funds, and [fol. 2202] so on, in your study?

A. Yes. This was the wish of the committee, that we include in our study an analysis or examination of these other institutions.

Q. And you understand, do you not, that commercial banks have a great many activities in addition to the straight deposit and lending activities?

A. Oh, yes. We were aware of the fact that they engaged in other activities.

Q. And there is large competition in the Philadelphia and four-county area in these other fields?

A. Well, there is certainly competition for time deposits with the mutual savings banks and the savings and loans, I think. There is competition with these institutions in the real estate lending market. There is competition for consumer loans with the finance companies and to a lesser extent, I think, with the credit unions. These are the areas, I think, in which to some extent there is competition with finance companies for business loans.

Q. You found out, in general, there wasn't any price competition?

A. As far as we could determine, this was not a way in which commercial banks compete with each other.

[fol. 2203] Q. And that is not only in Philadelphia or the four-county area, is it?

A. No, I think this is generally understood to be the case.

Q. You mentioned service charges. You made no study of the basis for the amounts of the similar charges, did you?

A. No, we merely attempted to get information from the various banks concerning the kinds of service charges which they imposed.

Q. It was the fact or the amount of the service charges?

A. It was the fact or the amount, yes. We did not go into the basis for determining what service charges should be.

Q. That it what I meant. Did you find, in general, that the bank capital and surplus had tended to lag behind the growth of industry?

A. I wouldn't say that we found this in this study. We tried to trace the growth of industry in this general area,

as a means of determining whether there was an adequacy of banking service here. We also compared the number of banking outlets, with population, the population per banking office as an indication of the adequacy of bank office facilities.

[fol. 2204] Q. Did you find them to be adequate?

A. Well, it is pretty hard to say what is adequate in this area.

Q. Well, you didn't find any shortage, did you?

A. There seemed to be some reduction. I believe my recollection is that we found that the number of banking offices increased somewhat faster in this area than the population.

Q. So that so far as services are concerned, the community was adequately served, was it not?

A. Well, assuming that it wasn't too inadequately served at the start. You never know what the basis from where you are starting here. Certainly you could say that the growth in banking offices had kept pace during this period with the growth of the community. Whether it was adequate at the start of the period or not, I wouldn't be in a position to say.

Q. Did you find that there was a lag in lending capacity because of the expansion of industry or growth of industry at a greater rate than that of the banks?

A. This would have required I think a rather different sort of study to determine to what extent the banks here were unable to satisfy the borrowing needs of the businessmen in the area. We made no attempt to——

[fol. 2205] Q. Will you turn to Page I-24 again and see if you didn't make just that statement. In the middle of the page, "... there has been a lag in lending capacity." The sentence starts, "Since the increase in bank capital," and so on, just about the middle of the page.

A. Are we talking about Philadelphia here or about banking generally? This is the middle of the page?

Q. The middle of Page I-24 starts, "Since the increase," and so on.

A. "Since the increase in bank capital and surplus has tended to lag behind the growth of industry and of the banks' own assets, there has been a lag in lending capacity."

But I think we are referring here, are we not, to the country as a whole rather than any specific situation here in the Philadelphia area. I think this was recognized, that after the war business expanded very rapidly. GNP rose. The banks generally found it difficult to increase their capital, and therefore their lending capacity, as rapidly as their customers were expanding their operations.

Q. Then there is a relationship between the growth of industry and the capacity of banks to keep pace with them [fol. 2206] by an increase of their capital and surplus so as to maintain their lending capacity?

A. Yes, I think as business grows, businesses grow in size, the banking institutions have to keep pace with them.

Q. And that is a normal development and natural development and one that is really necessary in our present economy, is it not?

A. I think it is a natural development. Of course, people might disagree as to whether the need for additional bank resources should be dependent upon increasing the number of banks or increasing the size of existing banks. This is a matter of opinion on which views might differ.

Mr. Price: That is all. Thank you.

The Court: We will recess now till 2:00 o'clock.

Gentlemen, come in at ten after 2:00. I have a couple of sentences this afternoon, so you can make it at 2:10. Recess court till 2:00 o'clock.

(Recess taken at 12:33 until 2:00 o'clock P. M.)

[fol. 2207] [File endorsement omitted]

AFTERNOON SESSION

(The following took place in chambers:)

(Discussion off the record.)

Mr. Reycraft: Your Honor, in answer to questions which the Government propounded to the Philadelphia National Bank, and specifically in response to Question No. 6 to the bank, we were furnished a list of documents and copies

of documents which are numbered as an appendix to the answer from No. 1 through No. 81.

Now, these documents indicate on their face in many cases that the originals contain the amounts of the lines of credit outstanding with respect to each of the individual companies involved. They indicate that the originals include the lines of credit outstanding with the Girard and with Philadelphia National, in many cases, and other Philadelphia banks. They indicate these companies have lines of commerce throughout the United States.

We have no real interest in having the names of the companies whose lines are involved in the record, and we are quite satisfied to have copies of the originals in the record which don't contain the names of the companies. However, we do feel that the information as to the number of banks involved, the amounts with respect to each [fol. 2208] bank, are important. They show in many cases we think direct competition between the Philadelphia National and Girard in this area for the loans which these companies require in this area. I believe that they will show—although I don't have the dollar amount yet—that in many cases the lines are less than those which the Philadelphia National and the Girard could grant without merger, so I think they are of relevance to our case, and they show that the lines, the total lines of credit of most of these companies, I believe the originals will show, far exceed anything the two banks could grant them either before or after a merger.

So for that reason I would renew my request for the originals of these documents, and I say again that I have no interest in the names of the companies who- business is involved, and am agreeable to any procedure that might be suggested which would protect their identity.

The Court: Well, with that, what objection would you have, Mr. Littleton?

Mr. Littleton: If the names are kept quiet, that is all right with me. The only objection there, of course, is the stupendousness of the job.

The Court: As I understand it, he is merely asking that you delete the erasures that you have already made and [fol. 2209] bring in what you have excluded from what

you have shown him. They are asking you to produce something you already have.

Mr. Littleton: He is asking us to produce the amounts of the lines granted by every other bank——

Mr. Reycraft: The original of the document.

The Court: Which were shown on the originals originally and which were deleted. That is all he is asking.

Mr. Littleton: I think he is asking more than that.

Mr. Reycraft: May I show you by way of example?

The Court: Yes.

Mr. Reycraft: Appendix 10-A. You will observe, Your Honor, a dollar sign on the side. I believe the amounts are on the side. It shows, for example, Philadelphia National, Girard Trust. These are Philadelphia banks. So I do think, if they want to leave out this heading, I don't care about that. That is the name of the company who is getting the credit. But as to the names of the banks, I don't see anything confidential about that.

The Court: And this is wiped out completely and this [fol. 2210] is replaced (indicating). If you had dollar values down there, what is the difference?

Mr. Littleton: I have no objection to that at all. Of course, what he is asking for is the originals out of our credit files.

The Court: Oh, no, he is asking for the original of this paper.

Mr. Reycraft: If you will give me a copy with all of the information except the top line, which shows the name of the company who is getting the credit, that would be satisfactory.

The Court: If you had on the original the dollar value and deleted it, he wants it replaced.

Mr. Littleton: That is the same for each one?

Mr. Reycraft: The same for each one.

Mr. Littleton: All right, I have no objection to that.

The Court: That is the reason I didn't see where you could or would have an objection.

Are we going any further with Dr. Keith?

Mr. Reycraft: No, sir, he has been excused.

The Court: All right.

[fol. 2211] Mr. Reycraft: If it is agreeable, Your Honor,

I would start tomorrow morning with Dr. Goodman and spend this afternoon marking exhibits.

The Court: That is agreeable to me. Tomorrow is Wednesday. How long do you think Dr. Goodman is going to take?

Mr. Reycraft: I am hoping to finish on Thursday, and I think if Dr. Goodman goes over into Thursday, I would be able to finish up Thursday anyway.

The Court: Let us then talk about the progress of the case.

Mr. Littleton: May I interject just one thing: I am not so sure that we can have all this additional information that he asked for by Thursday, but we will get it as quickly as we can. It means an awful lot of typing.

Mr. Reycraft: Can't you reproduce them by photostat?

Mr. Littleton: We can, those that are reproduceable.

The Court: If they did on the original what they have done there, they can't do it.

As I understand it, you are merely asking for a reproduction without deletions. If you want some code for your [fol. 2212] own information which would be completely private, I don't see any objection to that.

Mr. Reycraft: If the only information deleted is the name of the company, that is perfectly satisfactory.

Mr. Littleton: We will number each one.

The Court: Then you can have your own code for the numbers and there will be no need for it to appear in the public record. I thought that was your concern.

Mr. Littleton: Oh, yes, that is my position and has been from the beginning.

The Court: I don't think it is important by name anyway.

Mr. Reycraft: I don't either, Your Honor.

The Court: That is all right.

Now, how about the defense? If we get into Thursday, do you want to start on Thursday?

Mr. Littleton: I think it would be better for us to pull things together, and I think we would save time in the end if we started next week some time.

The Court: What is some time next week? Monday?

Mr. Littleton: Well, if we finish Thursday, I think Monday would be all right.

[fol. 2213] Mr. Price: Tuesday would be better.

Mr. Reycraft: Mr. Reed is more cautious than I, and he suggests I might not be able to be finished by Thursday.

Mr. Reed: I think, to be on the safe side, Friday we will be completed.

The Court: Suppose we figure, then, that we aim for the completion of the Government's case by Friday, the 23rd.

Mr. Reycraft: Certainly.

The Court: Frankly, I would prefer it if you would finish around the noon hour.

Mr. Reycraft: We will try to arrange that.

The Court: The next week, gentlemen, we are running into the weekend of the 4th.

Mr. Price: Saturday is the first.

The Court: And if humanly possible, I don't want to sit on the 3rd.

Mr. Price: I would be glad to contribute whatever I can to accommodate you.

Mr. Reycraft: I don't think anyone is terribly upset by that.

The Court: At the same time I don't want to delay the [fol. 2214] finish of the case.

Mr. Littleton: I think from the viewpoint of witnesses as well as the Court and counsel that is desirable.

The Court: It has to go over till Tuesday anyway, as I understand it, at the request of the defendant to pull things together. They want some interval in there.

Mr. Littleton: We want to edit out our list of witnesses.

The Court: I wouldn't be able to start before 10:30 on Wednesday, the 5th, if we don't finish next week. That might be some help to you gentlemen from Washington.

Mr. Littleton: We won't finish next week.

The Court: I didn't think you would.

Mr. Price: 10:30 on Wednesday, the 5th.

The Court: 10:30 on Wednesday, the 5th. I had in mind that some of you might want to go out of town over the 4th, and I am quite sure the boys from Washington will want to return home and stay there as long as possible.

Mr. Reycraft: We appreciate that, Your Honor.

[fol. 2215] The Court: I am perfectly agreeable if you want to go down and mark documents today, and I will send Mr. Kane down with you, and as with the rest of them, if you have extra copies, I would like to see them, so that when the time eventually comes, I will be in a position to pass on them.

Mr. Reycraft: That is all I had, Your Honor.

The Court: All right, gentlemen.

Mr. Price: We will conclude not later than noon on the 23rd?

The Court: Noon of Friday.

Mr. Price: That will give us much of Friday afternoon and Saturday and Monday.

Mr. Reed: So we will reconvene next Tuesday.

The Court: We will reconvene next Tuesday at 10:00 o'clock.

Now, Mr. Schuman, since you are the official marker, I assume that you will be busy this afternoon, and Mr. Kane and Mr. Hughes will accompany you.

(Recess taken at 2:30 P. M.)

[fol. 2216] (The following took place in the absence of the Court:)

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 128 a one-page document headed "Excerpt from the Minutes of a Regular Meeting of the Board of Directors of Girard Trust Corn Exchange Bank held on November 15, 1960," dated December 13, 1960.

(Document headed "Excerpt from the Minutes of a Regular Meeting of the Board of Directors of Girard Trust Corn Exchange Bank Held on November 15, 1960," dated December 13, 1960, was marked Exhibit G-128 for identification.)

Mr. Reycraft: Will you mark for identification as Government's Exhibit 129 a one-page document headed "Excerpt of Minutes and Resolutions Adopted by the Board of Directors of Girard Trust Corn Exchange Bank," December 20, 1960.

(Document headed "Excerpt of Minutes and Resolutions Adopted by the Board of Directors of Girard Trust

Corn Exchange Bank," dated December 20, 1960, was marked Exhibit G-129 for identification.)

Mr. Reycraft: Will you mark for identification as Government's Exhibit 130 a set of documents, the first page of which is headed "Minimum Interest Rates on Collateral Loans;" at the bottom appears the date October 17, 1955, and Frederic A. Potts, President, appears. The second [fol. 2217] page of Government's Exhibit 130 is headed "Minimum Interest Rates on Collateral Loans," dated April 16, 1956, and the typed name Frederic A. Potts, President, appears.

The third page, also headed "Minimum Interest Rates on Collateral Loans" is dated August 23, 1956, and the typed name Frederic A. Potts, President, appears.

The next page, "Minimum Interest Rates on Collateral Loans," dated July 10, 1957, has at the bottom the name Frederic A. Potts, President.

The next page, "Minimum Interest Rates on Collateral Loans," August 9, 1957, bears the name Frederic A. Potts, President.

The next page, "Minimum Interest Rates on Collateral Loans," January 20, 1958, Frederic A. Potts, President.

The next page, "Minimum Interest Rates on Collateral Loans," April 22, 1958, Frederic A. Potts, President.

The next page, "Minimum Interest Rates on Collateral Loans," September 12, 1958, Frederic A. Potts, President.

The next page, "Minimum Interest Rates on Collateral Loans," May 18, 1959, Frederic A. Potts, President.

[fol. 2218] The next page, "Minimum Interest Rates on Collateral Loans," September 1, 1959, John McDowell, Executive Vice-President.

The next page, "Minimum Interest Rates on Collateral Loans," August 23, 1960, Frederic A. Potts, President.

(11-page document of sheets each headed "Minimum Interest Rates on Collateral Loans," bearing dates from October 17, 1955, to and including August 23, 1960, was marked Exhibit G-130 for identification.)

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 131 an exhibit consisting of five pages, the first page of which has the heading "Daily Bulletin Memorandum," July 6, 1956, and the name G.

Edward Cooper, Vice-President and Cashier, appears on the bottom.

The second page is headed "Centralized Office Service Charges, 13.2 Revised 1-58"; the third page, also headed "Centralized Office Service Charges, 13.2 Revised 1/58" and the typed date 9/1/56 is crossed out, and in the body of this page there are what appear to be inked-in changes after the information applicable to earning credit, where there is an inked-in change for maintenance charge under special checking accounts and for statements requested under special checking accounts. The next page is headed [fol. 2219] "Centralized Office Service Charges, 13.2 Revised 2-58"; the next page is headed "Centralized Office Service Charges, 13.2 Revised 1/9/61."

(5-page document, the first page of which is headed "Daily Bulletin Memorandum," dated July 6, 1956, and four attached sheets, each entitled "Centralized Office Service Charges," was marked Exhibit G-131 for identification.)

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 132 a 14-page document, the first page of which is dated November 30, 1960, from Richard L. Cotter, Assistant Cashier; subject: "Mutual Accounts-Girard Corn & P. N. B." and the initials R. L. C. appear at the bottom.

On the second page, the date of November 23, 1960, appears, and it appears to be a memorandum from E. L. Worstall.

Mr. Littleton: Is that November 23rd? It looks like November 22nd here.

Mr. Reycraft: I think you are right. It is November 22nd.

The next page is a memorandum from E. L. Worstall, and there are six persons to whom this memorandum is addressed, and the memorandum is dated November 22, 1960.

(Discussion off the record.)

Mr. Reycraft: The fourth page of Government's Exhibit [fol. 2220] No. 132 is headed "Bucks County," and contains a list of six companies which appear to be accounts

maintained in common with Girard Trust Corn Exchange Bank and the Philadelphia National Bank.

The third page of Government's Exhibit 132 indicates that the balances in the accounts which are included within the exhibit may be indicated on the original documents. Therefore, we request that an effort be made to ascertain whether the original document does contain the balances.

(14-page document, the first sheet of which bears date November 30, 1960, being from Richard L. Cotter, Assistant Cashier, subject: "Mutual Accounts-Girard Corn & P. N. B.," was marked Exhibit G-132 for identification.)

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 133 a 7-page document, the first page of which is headed "Lines and Outstandings to Finance Companies, June 30, 1960."

(Document consisting of 7 pages, the first page being headed "Lines and Outstandings to Finance Companies, June 30, 1960," was marked Exhibit G-133 for identification.)

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 134 a 5-page document headed [fol. 2221] "Dealers."

Following the name of each dealer appears the date 1959 and 1960, with some exceptions, and following each date a dollar amount which appears to be the amount of loans outstanding.

(5-page document headed "Dealers" was marked Exhibit G-134 for identification.)

[fol. 2222] Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 135 a document consisting of 13 pages. The first page is headed "Rental Accounts" and the date 12-1-60 appears.

The second page of the document begins with the Page No. 1 at the bottom and continues through Page 12. The attachment which begins with the Page 1 at the bottom is headed "Consumer Credit Commercial Loans, Business Loans."

The next page, which has the No. 2 at the bottom is

headed "Consumer Credit Commercial Loans, Earth Moving and Contracting Equipment Dealers."

The next page, with the No. 3 at the bottom, is headed "Commercial Credit Consumer Loans, Commercial Refrigeration and Modernization," and the handwritten words "Stay at gtex," appear at the top.

On the page with the No. 5 at the bottom, the heading "Industrial Laundry and Dry Cleaning Equipment Dealers" appears.

Mr. Littleton: Did you skip No. 4?

Mr. Reycraft: Yes, because it is a continuation.

On the page with the No. 6 at the bottom the heading "Consumer Credit Commercial Loans, Other Industrial [fol. 2223] Equipment" appears.

The next page, No. 7, at the bottom, has a heading "Consumer Credit Commercial Loans, Miscellaneous."

The page with 8 at the bottom is headed "Consumer Credit Commercial Loans."

The page with 9 at the bottom is headed "Consumer Credit Commercial Loans, Rentals."

The page with 10 at the bottom is headed "Consumer Credit Commercial Loans, Wholesale—Others."

The page with 11 at the bottom is headed "Consumer Credit Commercial Loans, Wholesale—Mobile Homes."

The page with 12 at the bottom is headed "Consumer Credit Commercial Loans—Wholesale—Automobiles."

And our notes show that this document came from Girard.

(Document consisting of 13 pages, the first page headed "Rental Accounts," was marked Exhibit G-135 for identification.)

Will you mark for identification as Government's Exhibit No. 136 a five-page exhibit, on the first page of which appears the heading "Outstanding Consumer Credit Commercial Loans—12-31-60. House Accounts * Commercial [fol. 2224] Modernizations."

On the second page appears the heading "Consumer Credit Commercial Loans, House Accounts * Heavy Commercial Vehicles."

On the next page, "Consumer Credit Commercial Loans, House Accounts—Machinery and Equipment."

The next page, No. 4, is also headed "Consumer Credit

Commercial Loans, House Accounts * Machinery and Equipment."

On the 5th page, the same heading.

And our notes also indicate that this document came from Girard.

(Five-page document, the first page of which is headed "Outstanding Consumer Credit Commercial Loans—12-31-60, House Accounts * Commercial Modernizations" was marked Exhibit G-136 for identification.)

Mr. Flocken: Government's Exhibit 137 is a 12-page document, the first page headed "Exhibit E, Classification of Regular Checking Accounts, According to Size." This exhibit was attached to a Service Charges Committee Report dated 7-28-60 to Mr. Frederic Potts, and it came from the PNB.

(12-page document, the first page headed "Exhibit E, Classification of Regular Checking Accounts According to [fol. 2225] Size," was marked Exhibit G-137 for identification.)

Mr. Littleton: Did you say you can't find the report to which this is attached?

Mr. Flocken: I said, when I marked the exhibit, I believe, that it was attached to a report by the Service Charges Committee to Mr. Frederic Potts, and that memorandum was dated 7-28-60.

Mr. Littleton: Do you have that report at the present time?

Mr. Flocken: I cannot put my hand on it at the present time.

Mr. Blenko: The report is dated July 28?

Mr. Flocken: That is what my notes indicate.

Mr. Littleton: You designated that informally as 233, I believe.

Mr. Flocken: I didn't have a chance to do it before I started to mark this. I wanted to examine to see if we have 233, which should be this memorandum (indicating).

I will now mark an eight-page document as G-137-A, which is a report of the Service Charges Committee to Mr. Frederic A. Potts. The memorandum is dated July

28, 1960, and is the memorandum which I referred to in [fol. 2226] connection with Exhibit 137.

(8-page document dated July 28, 1960, to Mr. Frederic A. Potts, president, headed "Report of the Service Charges Committee" was marked G-137-A for identification.)

Mr. Flocken: Government's Exhibit No. 137-B is a ten-page document, the first page entitled "Exhibit G, Deposit Items Surveys," which is another exhibit attached to the memorandum which has been marked as 137-A.

I would also like to state for the record that Government's Exhibit 115, that has already been identified as 115, is Exhibit I, "Survey of Branch Area Compensation," which is an additional exhibit attached to the memorandum that has been marked as 137-A.

(10-page document, first page entitled "Exhibit G, Deposited Items Surveys" was marked Exhibit G-137-B for identification.)

Government's Exhibit 138 is a two-page memorandum dated 12-2-60, entitled "Merger Memorandum, Re: Priority of Branch Sites."

(Two-page memorandum dated 12-2-60, entitled "Merger Memorandum, Re: Priority of Branch Sites," was marked Exhibit G-138 for identification.)

[fol. 2227] Government's Exhibit 139 is a five-page memorandum signed Robert C. Allen, dated 11-28-60. The first page is entitled "The Philadelphia National Bank," and there follows a description of various Philadelphia National branches.

(Five-page memorandum signed Robert C. Allen, dated 11-28-60, the first page entitled "The Philadelphia National Bank" was marked Exhibit 139 for identification.)

Government's Exhibit 140 is a three-page memorandum from W. J. Whiteford to Mr. E. L. Worstall, dated December 14, 1960. The subject matter is a report on a merger meeting concerning the organization and operation of the retail division of the resulting bank, PNB and GTCX. Attached are two pages, Pages I and II.

(Three-page memorandum dated December 14, 1960, from W. J. Whiteford to Mr. E. L. Worstall, was marked Exhibit G-140 for identification.)

Government's Exhibit 141 is a one-page memorandum dated January 17, 1961, signed H. T. Enssler, to V. E. Furey and E. L. Worstall. It is a progress report No. 1 on equipment loans, task force progress report on equip-
[fol. 2228] ment loans.

(One-page memorandum dated January 17, 1961, signed H. T. Enssler, to V. E. Furey and E. L. Worstall, re Equipment Loans—Progress Report #1, was marked Exhibit G-141 for identification.)

Government's Exhibit No. 142 is a one-page memorandum from William Whiteford to Mr. Worstall. This is a task force committee report on the retail division of the resulting bank. It is dated January 11, 1961.

(One-page memorandum dated January 11, 1961, from Bill Whiteford to Mr. E. L. Worstall, was marked G-142 for identification.)

Government's Exhibit 143 is a two-page document signed by the typed name at the bottom R. David Connor and Harold Carter. The document is dated February 1, 1961, and entitled "Savings Fund Recommendations," a report by the members of the Savings Funds Task Force.

(Two-page document dated February 1, 1961, headed "Savings Fund Recommendations," was marked Exhibit G-143 for identification.)

Government Exhibit 144 is a one-page document dated January 16, 1961, apparently stating the number of com-
[fol. 2229] mercial accounts and personal accounts at the two banks that have been assigned numbers.

Mr. Littleton: What is your justification for that statement?

Mr. Flocken: The first paragraph:

Philadelphia National has not notified its 17,000 commercial accounts of their number, as well as 8000 personal accounts located in Bristol and Hatboro."

Mr. Littleton: That is just the contrary to what you said, isn't it?

Mr. Flocken: I believe the first two lines of figures above the first paragraph of text indicates actually assigned numbers——

Mr. Littleton: To what?

Mr. Flocken: To Girard and PNB accounts, and then the third line of numbers on the page, about the middle of the page, there is a column "Accounts Assigned Numbers," and PNB Commercial Accounts are numbered, apparently, 800 have been assigned numbers.

(One-page document dated January 16, 1961, the first line reading "Numbers Assigned" was marked Exhibit G-144 for identification.)

Government's Exhibit 145 is a two-page document dated February 21, 1961, with signatures of four individuals on the second page, addressed to Mr. Vincent E. Furey. This [fol. 2230] is Progress Report No. 2, Task Force on Equipment Loans for the combined bank.

(Two-page document dated February 21, 1961, subject: Progress Report No. 2 task force re equipment loans Philadelphia Girard National Bank and Trust Company, was marked Exhibit G-145 for identification.)

Government's Exhibit No. 146 consists of the answers of Philadelphia National Bank to Questions 4 and 5 propounded by plaintiff.

(Document headed "Answer of the Philadelphia National Bank to Questions 4 and 5 of Questions Propounded by Plaintiff" was marked Exhibit G-146 for identification.)

Government's Exhibit 147 is a 10-page document comprising the questions propounded by plaintiff on answer by defendants in this case. These were submitted April, 1961, and they contain questions 1 through 30.

(Ten-page document comprising the questions propounded by plaintiff for answer by defendants was marked Exhibit G-147 for identification.)

Government's Exhibit No. 148 is a four-page document, the first page of which is a letter dated May 3, 1961, from Morgan, Lewis and Bockius, enclosing the attached three-page modifications of questions propounded by plaintiff on

[fol. 2231] April 28, 1961, as agreed upon by counsel for the parties May 2, 1961.

(Four-page document, the first page of which is a letter dated May 3, 1961, from Morgan, Lewis and Bockius, was marked Exhibit G-148 for identification.)

Government's Exhibit 149 is a four-page document consisting of a covering letter dated May 8, 1961, signed by Ernest R. von Starck, addressed to George D. Reycraft, attaching a three-page explanation of the method of sampling that will be used by both Philadelphia National Bank and Girard Trust in answering certain of plaintiff's questions relating to loans and deposits.

(Four-page document consisting of a covering letter dated May 8, 1961, signed by Ernest R. von Starck, addressed to George D. Reycraft, was marked Exhibit G-149 for identification.)

Government's Exhibit 150 is a four-page document consisting of two letters, the first dated December 9, 1953, from Arthur Littleton to Mr. L. A. Jennings, Deputy Comptroller of the Currency, enclosing a copy of the proposed agreement of merger between the Philadelphia National Bank and the Chester-Cambridge Bank and Trust Company. There is attached to the second letter a pro [fol. 2232] form statement of condition for the Philadelphia National Bank.

Am I correct that that L, Mr. Littleton, stands for——

Mr. Littleton: Look right down at Note (a).

Mr. Flocken: —that it is a deposit of the Lansdale Bank, Montgomery National and Chester-Cambridge in Philadelphia National?

Mr. Littleton: I just refer you to Note (a) at the foot.

Mr. Flocken: Am I correct that that L at the top of the page stands for deposits at the Lansdale Bank?

Mr. Littleton: The letter at the top of the page certainly stands for Lansdale.

Mr. Flocken: And I take it from note (a) that you referred me to that those deposits are from that bank?

Mr. Littleton: "These are the deposits of Lansdale, Montgomery National, and Chester-Cambridge in Philadel-

phia National, carried on their books as 'due from banks', and on Philadelphia National's books as 'deposits.'

That is what Note (a) says.

[fol. 2233] (Four-page document consisting of two letters, the first dated December 9, 1953, from Arthur Littleton to Mr. L. A. Jennings, Deputy Comptroller of the Currency, was marked Exhibit G-150 for identification.)

Government's Exhibit 151 is a two-page letter dated July 22, 1955, addressed to the Honorable L. A. Jennings, Deputy Comptroller of the Currency, signed—I must ask assistance for the name.

Mr. Littleton: E. L. Worstall.

Mr. Flocken: Concerning the preliminary approval of the proposed merger of the Citizens National Bank of Pottstown with the Philadelphia National Bank.

(Two-page letter dated July 22, 1955, addressed to the Honorable L. A. Jennings, Deputy Comptroller of the Currency, signed E. L. Worstall, was marked Exhibit G-151 for identification.)

Government's Exhibit 152 is a one-page letter signed by Mr. Worstall, to L. A. Jennings, Deputy Comptroller of the Currency, dated September 27, 1955, concerning negotiations for merger between Hatboro National Bank and the Philadelphia National Bank.

(One-page letter dated September 27, 1955, from E. L. Worstall to Honorable L. A. Jennings, Deputy Comptroller [fol. 2234] of the Currency, was marked Exhibit G-152 for identification.)

Government's Exhibit 153 is a two-page letter dated July 18, 1956, signed Frederic A. Potts, addressed Honorable Ray M. Gidney, Comptroller of the Currency. It is a request for approval of the Comptroller for a merger of the Delaware Valley Bank and Trust Company and the Philadelphia National Bank.

(Two-page letter dated July 18, 1956, from Frederic A. Potts to Honorable Ray M. Gidney, Comptroller of the Currency, was marked Exhibit G-153 for identification.)

Government Exhibit 154 is a two-page letter dated October 16, 1953, from Frederic A. Potts to L. A. Jen-

nings, Deputy Comptroller of the Currency, requesting approval for establishment by PNB of a branch office in the Penn Center development.

(Two-page letter dated October 16, 1953, from Frederic A. Potts to L. A. Jennings, Deputy Comptroller of the Currency, was marked Exhibit G-154 for identification.)

Government's Exhibit 155 is a one-page letter dated October 25, 1954, signed Frederic A. Potts, to L. A. Jennings, Deputy Comptroller of the Currency, supplying ad-
[fol. 2235] ditional information on a previous request for the opening of a new office in Chester.

(One-page letter dated October 25, 1954, from Frederic A. Potts to L. A. Jennings, Deputy Comptroller of the Currency, was marked Exhibit G-155 for identification.)

Government's Exhibit 156 is a one-page letter dated May 6, 1955, signed G. Edward Cooper, to L. A. Jennings, Deputy Comptroller of the Currency, requesting permission to establish a branch at Grant Avenue and Roosevelt Boulevard, Bustleton, Philadelphia.

Mr. Littleton: Can you read what is down in the corner in somebody's handwriting?

Mr. Flocken: "Card made and entered in book," with the initial B, as I read it, underneath it.

Mr. Littleton: Do you have any idea what that is?

Mr. Flocken: I have no idea what that is.

Mr. Reycraft: My guess is that somebody in the Comptroller's office made that notation on the document.

Mr. Littleton: I would guess that is it.

Mr. Flocken: There is also a typewritten notation at the
[fol. 2236] bottom of the page in the left-hand corner "Application Withdrawn."

Does that show on the other copies?

Mr. Littleton: That shows on this.

(One-page letter dated May 6, 1955, from G. Edward Cooper, vice president, to Mr. L. A. Jennings, Deputy Comptroller of the Currency, was marked Exhibit G-156 for identification.)

Government's Exhibit 157 is a one-page document, application of Philadelphia National Bank to establish a

branch in Media, Delaware County. The application is dated July 6, 1955, and it is signed G. Edward Cooper.

I notice, Mr. Littleton, that the same notation is written in the lower right-hand corner, "Card made and entered in books," with the initial B.

Mr. Littleton: Yes. Do you want to call attention to the typewritten words at the bottom at the left?

Mr. Flocken: I will call attention to the typewritten note at the bottom lower left-hand corner "Rejected."

(One-page document, Application of the Philadelphia National Bank, Philadelphia, Pennsylvania, for permission [fol. 2237] to establish a branch in Media, Delaware County, was marked Exhibit G-157 for identification.)

Government's Exhibit 158 is a one-page letter dated April 23, 1958, signed Frederic A. Potts, addressed to R. M. Gidney, Comptroller of the Currency, requesting approval for establishment of a branch in the King of Prussia area, Upper Merion Township, Montgomery County.

Again the notation "Card made and entered" is in the lower right-hand corner, with the date 4-24-58 and initials that look as if they are HSB in handwriting.

In the lower left-hand part of the page there is in handwriting "8 local branches." Underneath it has "14"—or "11"—outside at the bottom in type "Rejected (Reapplied 2-16-60 and Again Rejected; See Attached)"

Mr. Littleton: What is the attached?

Mr. Flocken: We believe it is the next exhibit.

(Document signed Frederick A. Potts addressed to Honorable R. M. Gidney, comptroller of the currency, was marked Exhibit G-158 for identification.)

[fol. 2238] Government's Exhibit 159 is a one-page document which is the application of the Philadelphia National Bank for permission to establish a branch in Upper Merion Township, Montgomery County. It is signed E. Lawrence Worstall, dated February 16, 1960. The lower left-hand corner of the page has typed on it "Rejected," and this is the attachment referred to in Government's Exhibit 158.

Mr. Littleton: What is your justification for that?

Mr. Flocken: My justification is that the typewritten on

G-158 at the bottom says "Rejected (Reapplied 2-16-60 and Again Rejected.)"

This application is in the same area, I believe, in the King of Prussia area, and it is also the same date, and is rejected.

Mr. Littleton: I gather you got this exhibit and the last exhibit from the Comptroller of the Currency?

Mr. Flocken: I believe that is correct.

Mr. Littleton: And can you remember that this was attached to the preceding exhibit?

Mr. Flocken: I cannot do so.

(One-page document, Application of the Philadelphia Na-
[fol. 2239] tional Bank to Establish a Branch in Upper Merion Township, Montgomery County, was marked Exhibit G-159 for identification.)

[fol. 2240] Mr. Flocken: Government Exhibit 160 is a 2-page document consisting of the application of The Philadelphia National Bank for permission to establish a branch on Frankford Avenue at Knights Road, in Philadelphia. The application is dated September 7, 1960, and it is signed in handwriting which I am not able to read.

Mr. Littleton: H. W. Wallgren.

Mr. Flocken: And the typewritten notation in the lower left-hand corner reads "Application Withdrawn."

(Application of The Philadelphia National Bank for permission to establish a branch at Frankford Avenue at Knights Road, Philadelphia, dated September 7, 1960, two-page document, was marked Exhibit G-160 for identification.)

Mr. Littleton: Put this on the record, if you please.

I notice in G-160 that there is a second page to the application. Some of your previous exhibits have been the same form of application, but the second page has not been attached.

When you received these documents from the Comptroller of the Currency was there a second page attached on the ones which you put in as single-page documents?

Mr. Flocken: To my knowledge, Mr. Littleton, those that we put in as single pages were the way we received them
[fol. 2241] from the Comptroller.

Off the record.

(Discussion off the record.)

Mr. Littleton: I notice, however, that there is a Received stamp of the Comptroller of the Currency dated September 22, 1960, on this second sheet, which second sheet, I believe, is simply a photostat of the reverse side of the first sheet, because you will notice on the first sheet, about five or six lines from the bottom, there is "(See other side)."

Mr. Flocken: I am inclined to agree with your explanation, Mr. Littleton.

Mr. Reycraft: Will you mark as Government's Exhibit No. 161 the Federal Reserve report on this merger, which was attached to a letter of March 1, 1961, from Elizabeth L. Carmichael, Assistant Secretary, to W. Wallace Kirkpatrick, Esquire, Acting Assistant Attorney General, Antitrust Division, Department of Justice.

The letter indicates that there are enclosed reports on a proposed consolidation of First Westchester National Bank of New Rochelle and First National Bank and Trust Company of Ossining; and that report is not attached to the Government's Exhibit 161.

The covering letter also indicates that there is enclosed a report on proposed consolidation of The Philadelphia [fol. 2242] National Bank, Philadelphia, Pennsylvania, and Girard Trust Corn Exchange Bank, Philadelphia, Pennsylvania.

The report consists of 10 pages, and the first page of the report itself headed "Report by the Board of Governors of the Federal Reserve System to the Comptroller of the Currency, under Section 18(c) of the Federal Deposit Insurance Act, as amended, on the competitive factors involved in the proposed consolidation of"—and then the names of the two banks following.

(Letter dated March 1, 1961, from Board of Governors of the Federal Reserve System to W. Wallace Kirkpatrick, Esq., Acting Assistant General, together with 10-page "Report by the Board of Governors of the Federal Reserve System to the Comptroller of the Currency, etc." was marked Exhibit G-161 for identification.)

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 162 a letter from Robert A. Bicks, Assistant Attorney General, Antitrust Division, dated January 19, 1961, to Hon. Ray M. Gidney, Comptroller of the Currency, Treasury Department. The letter is 9 pages, and there is a summary attached as the 10th page.

(9-page letter dated January 19, 1961, from Robert A. Bicks, Assistant Attorney General, to Hon. Ray M. Gidney, Comptroller of the Currency, together with a one-sheet [fol. 2243] summary, was marked Exhibit G-162 for identification.)

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 163 a 6-page document, the first page of which is headed in the upper right-hand corner "Page 2," and it is entitled "Analysis of Competitive Factors," and in the upper left-hand corner appears The Philadelphia National Bank, Philadelphia, Pennsylvania; and for the record, I might state that it has been represented to me by Mr. Reisenberger of the F. D. I. C. that page 1 of the reports which the F. D. I. C. submits is a covering memorandum, internally, within the F. D. I. C.; and that the exhibit, as it appears in the record, is what is sent to the Comptroller's Office and was sent to the other reporting agencies.

Mr. Littleton: Have you ever seen page 1?

Mr. Reycraft: I have not.

Mr. Littleton: Where did this document G-163 come from?

Mr. Reycraft: The document G-163 was sent to the Department of Justice in the mail by the Federal Deposit Insurance Corporation after it had made its reports to the Comptroller and after the other reporting agencies had made their reports to the Comptroller on this merger.

Mr. Littleton: And they state that this was its report to the Comptroller?

[fol. 2244] Mr. Reycraft: That is what is represented to me.

(Six-page document, consisting of Pages 2 to 7, inclusive, entitled "Analysis of Competitive Factors," the Philadelphia National Bank, Philadelphia, Pennsylvania, was marked Exhibit G-163 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit No. 164 a four-page document, the covering page of which has the words "Advance Extract from Annual Report to the Congress of the Comptroller of the Currency."

(Four-page document, having cover page reading "Advance Extract from Annual Report to the Congress of the Comptroller of the Currency," was marked Exhibit G-164 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit 165 a six-page exhibit. The covering memorandum to this exhibit is an inter-office memorandum dated July 3, 1956, from Third & Arch Streets to Mr. R. D. Conner, Main Office, and our notes indicate that this is a Girard document.

(Six-page document, the first of which is an inter-office memorandum dated July 3, 1956, from Third & Arch Streets to Mr. R. D. Conner, Main Office, was marked Exhibit G-165 for identification.)

[fol. 2245] Mr. Reycraft: Will you mark as Government's Exhibit 166 a one-page document headed "Service Charges G.T.C.E. vs. 1st Pennsylvania and Philadelphia National Average Regular Checking Account of 18 Items Consisting of 4 Deposit Tickets, 5 Deposit Items, 9 Checks Drawn."

(Document entitled "Service Charges G.T.C.E. vs. 1st Pennsylvania and Philadelphia National Average Regular Checking Account of 18 Items Consisting of 4 Deposit Tickets, 5 Deposit Items, 9 Checks Drawn," was marked Exhibit G-166 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit 167 a one-page document which our notes indicate came from the Girard Trust Corn Exchange Bank, headed Philadelphia Bank Service Charge Comparisons—Regular Checking Using a $500 Average Balance Base With a Total of 18 Items."

(Document entitled "Philadelphia Bank, Service Charge Comparisons—Regular Checking Using a $500 Average Balance Base With a Total of 18 Items," was marked Exhibit G-167 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit 168 a one-page document headed "Philadelphia Bank Service Charge Comparisons Regular Checking Using an Average Account With 9 Paid Items, 4 Deposit Tickets, 4 [fol. 2246] Checks Deposited and 1 Cash Deposit," dated 8-25-58.

(One-page document entitled "Philadelphia Bank Service Charge Comparisons Regular Checking Using an Average Account With 9 Paid Items, 4 Deposit Tickets, 4 Checks Deposited and 1 Cash Deposit" dated 8-25-58 was marked Exhibit G-168 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit 169 a one-page document headed "Philadelphia Bank Service Charge Comparisons Regular Checking Using an Average Company Account for Various Size Categories," dated 8-29-58, from the Girard Trust Corn Exchange Bank.

(Document entitled "Philadelphia Bank Service Charge Comparisons Regular Checking Using an Average Company Account for Various Size Categories," dated 8-29-58, was marked Exhibit G-169 for identification.)

Will you mark as Government's Exhibit 170 a three-page document headed "Analysis Survey of Philadelphia Banks Regular Checking as of September 20, 1960," which was also obtained from the Girard Trust Corn Exchange Bank.

(Three-page document headed "Analysis Survey of Philadelphia Banks Regular Checking as of September [fol. 2247] 20, 1960," was marked Exhibit G-170 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit 171 a three-page document headed "Analysis Survey of Philadelphia Banks Regular Checking as of March 31, 1961," also from the Girard Trust Corn Exchange Bank.

(Three-page document entitled "Analysis Survey of Philadelphia Banks Regular Checking as of March 31, 1961," was marked Exhibit G-171 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit No. 172 a two-page document, the first page having in

the upper left-hand corner the words "Girard Trust Corn Exchange Bank, Philadelphia, Pa." and the caption, "Memorandum, Re: Proposed First Pennsylvania Company Branch Springfield, Delaware County Shopping Center," dated September 3, 1958, from Robert C. Allen.

(Two-page memorandum re "Proposed First Pennsylvania Company Branch Springfield, Delaware County Shopping Center" dated September 3, 1958, from Robert C. Allen, was marked Exhibit G-172 for identification.)

[fol. 2248] Mr. Reycraft: Will you mark as Government's Exhibit 173 a two-page document which is a letter of September 26, 1958, from Geoffrey S. Smith, president, Girard Trust Corn Exchange Bank, to the Honorable Robert L. Myers, Jr., Secretary of Banking, Commonwealth of Pennsylvania.

(Two-page letter on letterhead of Girard Trust Corn Exchange Bank, from Geoffrey S. Smith, president, to the Honorable Robert L. Myers, Jr., Secretary of Banking, was marked Exhibit G-173 for identification.)

Mr. Littleton: I see there is supposed to be a map attached to this. Do you have a map along with it?

Mr. Reycraft: No, we don't.

Mr. Littleton: The last page on the first paragraph of G-173 says appended to this letter is a map.

Mr. Flocken: Off the record.

(Discussion off the record.)

Mr. Littleton: On the record again, the answer is you don't have the map to this?

Mr. Flocken: That is correct.

(Discussion off the record.)

[fol. 2249] Mr. Reycraft: Will you mark as Government's Exhibit 174 a one-page memorandum from Robert C. Allen to Mr. S. S. Gardner, dated September 11, 1958.

(Memorandum dated September 11, 1958, from Robert C. Allen to Mr. S. S. Gardner, vice president, was marked Exhibit G-174 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit 175 a one-page memorandum dated February 10, 1959,

from Mr. S. S. Gardner to Messrs. Geoffrey S. Smith, George H. Brown, Jr., and O. H. Beadle.

(Memorandum dated February 10, 1959, from S. S. Gardner to Messrs. Geoffrey S. Smith, George H. Brown, Jr., and O. H. Beadle, was marked Exhibit G-175 for identification.)

Mr. Reycraft: Is it agreeable to call it a day?

Mr. Littleton: Are you finished?

Mr. Reycraft: No. I want to look through these and cut some of them down. I don't want to mark all of these.

Mr. Littleton: It is entirely up to you.

[fols. 2250-2256] (Discussion off the record.)

Mr. Blenko: I would like to state on the record, with the approval of Mr. Reycraft, that we are substituting a correct current schedule of PNB service charges in effect at various branches for the original Exhibit G-109, which was provided at Mr. Reycraft's request——

Mr. Littleton: On very short notice.

Mr. Blenko: —under conditions of haste, which gave rise to certain inaccuracies on the face of the original.

The substituted version of G-109, we are advised, is a correct current schedule.

Mr. Reycraft: No objection.

Mr. Blenko: Thank you.

(Adjourned at 5:00 o'clock P. M., until 10:00 o'clock on Wednesday, June 21, 1961.)